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THE UNITED STATES COTTON FUTURES ACT

Confronted with the alternative of a prohibitive tax, the New York Cotton Exchange, after years of defiance, has reformed its future contract. Effective February 18, the exchange adopted a system of dealing in futures largely dictated by the terms of the United States Cotton Futures act. This act, passed at the last session of Congress, is in turn based largely on recommendations in the report of the Bureau of Corporations, made some years ago after an extended investigation. There is, however, this important exception: the Bureau of Corporations favored a reform of discredited methods by the exchange itself, whereas the Cotton Futures act subjects the exchange to constant and intimate regulation by the federal government through the Secretary of Agriculture. For this the exchange is chiefly indebted to those recalcitrant members who for years not only ignored the strictures of the Bureau of Corporations but resisted the wishes of a large element of its own membership as well.

Broadly speaking, the troubles of the New York Cotton Exchange originated in a decline in "spot" dealings in cotton at New York. From sales of over 430,000 bales annually in the 70's, the annual average in the 90's fell to less than 160,000 bales. This shrinkage in spot business was largely due to the introduction of more favorable through rates of freight from the South direct to mill centers, partly to the shifting of cotton manufacture to the cotton-growing states, and partly to other broad changes in the conduct of the cotton business.

The limited business in spot cotton done at New York has often been cited as evidence that there is no real need or justification for a cotton exchange at that port. Members of the cotton exchange contend, however, that its usefulness, and its right to exist, should not be judged by the volume of spot sales in the New York market, but, instead, that it is the facilities for organized trading—banking capital, a foreign exchange market, and a speculative clientele—which determine the advisability of locating the exchange at a northern city remote from the cotton belt.

There must, of course, be some stock of cotton to protect the

commitments of sellers. It was because of the difficulty in attracting such a stock, in large measure, that the New York Cotton Exchange years ago made those unfortunate changes in its rules which, demoralizing its contract market, provoked intense hostility in the cotton trade, brought the severe condemnation by the Bureau of Corporations, and eventually threatened the very existence of the exchange.

By far the most mischievous of these early changes in its rules, and one now sharply reversed by the Cotton Futures act, related to the method of establishing price differentials, or price "differences" as they are called, between middling cotton and other tenderable grades. For it must be clearly understood and constantly kept in mind, that the cotton-future contract is a basis contract. It does not call for the delivery of any specific grade of cotton. Instead, the seller has the privilege of making delivery from a large number of grades. If he delivers middling, the basis grade, he receives the exact price named in the contract. Other grades are deliverable at "differences" on or off the contract price for basis middling, according as they grade above or below middling in quality. The seller's choice is complete. He may deliver any tenderable grade or a mixture of various grades. Ordinarily tenders at New York are badly mixed and consist mainly of socalled surplus grades, i.e., grades which for the time being are slowest of sale in the spot market.

The reason for this adoption of a basis contract instead of a specific contract is a simple one, viz., the proportions of the numerous grades to the total crop vary widely from season to season, and, moreover, are liable to sudden change because of severe storm—which lowers the grade of much cotton by beating it into the dirt—or by early frost, which may stain many bolls, or by other unforeseeable and unpreventable contingencies. Hence, sellers could not be found who would commit themselves to forward sales for a specific-grade contract in volume sufficient to make a practical future market. If they did, they would always have hanging over them a sword of Damocles in the shape of a disastrous "corner." This, in effect, is the argument for a basis contract, and it appears to be conclusive.

Granted then, that a basis contract is the only practicable contract for organized future trading in cotton, critics of the New York Cotton Exchange have contended—and this was the position taken by the Bureau of Corporations—that in return for

this unusual and immensely valuable privilege granted the seller, the buyer, if he does not receive middling cotton, should at least receive cotton of a fair equivalent in money value. In a word, they contend that the contract differences between middling cotton, the basis grade, and other tenderable grades shall always conform to the real differences existing in the spot market, under competition.

This does not mean, of course, that the buyer will be protected from loss. If he buys his future contract at 10 cents per pound, and at the time of delivery is tendered middling, he must, of course, pay that price, even though middling in the spot market be selling at only 5 cents. The contention is that if the buyer is tendered other grades than middling he should not be forced to take them at arbitrary "differences" which may aggravate his loss, but that he should get them at the true differences on or off

middling existing in the spot market at time of delivery.

This method of determining the contract differences, i.e., the use of actual differences prevailing in the spot market, and conveniently called the commercial difference system, is the only system ever employed or even seriously considered on two of the world's leading cotton exchanges, those at Liverpool and New Orleans. Moreover, it was for many years the only system employed at New York. Gradually, however, the diminishing stock of cotton at New York and the attendant difficulties in accurate determination of grade differences, together with increased opportunity for manipulating such differences in order to deceive arbitration committees, led to the abandonment of the commercial difference principle. A revision committee (the Committee on Revision of Quotations of Spot Cotton) was created with power to fix the contract grade differences for definite periods. At first, monthly revision dates were provided, except in the summer season; but from 1897 on, until very recently, only two revisions yearly were permitted—one on the second Wednesday in September, holding good until the third Wednesday of November, and the second holding from November until the following September. In practice, meetings of the revision committee, especially the September sessions, frequently resulted in no change in the contract differences. Consequently, these differences often remained unaltered for a full year or more.

Here, then, was a system of committee fiat arbitrarily injected into a mechanism for handling commerce in a great staple. Like many other fiat experiments in trade, it failed miserably. The law

of supply and demand operates, of course, on the relative values of the different grades as well as on the value of middling itself. Consequently, from time to time the fiat differences of the exchange inevitably became out of line with the differences in the spot market and one or another of the contract grades thereby became overvalued as compared with middling. That is, the fiat difference to be added to the contract price for a grade better than middling would be greater than the difference for the same grade in the spot market, or the difference to be deducted for a lower grade would be less.

The seller, having full decision as to the selection of grades for the delivery, naturally will deliver the overvalued grades. In practice, it is true, comparatively little cotton is delivered on exchange contracts. But the underlying principle of the contract is that cotton may be delivered, and must be delivered if the buyer demands it. Otherwise operations in cotton futures would be open to all the objections of bucket-shop trading. No real friend of the cotton exchanges would for a moment deny this underlying principle.

Knowing that the contract differences could not be changed until the next revision date and fearing the delivery of overvalued grades, the holder of contracts at such times tried to escape loss by selling out his contract. But the next buyer aimed to protect himself by reducing his bid below the price he would be willing to pay if the differences were identical with those in the spot market. Thus there was caused an artificial depreciation of the value of the contract.

Of course, certain grades might be undervalued, but since the seller has complete choice as to deliverable grades, the ordinary result of this is simply to exclude such undervalued grades from contract delivery for the time being. As a practical matter, the trouble over grade differences has come from overvaluation and not undervaluation.

The evils of this overvaluation of grades and depreciation of the contract are twofold: first, they produce an undue disparity between the contract price (for a current-month future) and the current spot price of middling, and largely destroy the value of the future market for "hedging," its most legitimate function; second, this depreciated and distorted price of the future contract, flashed over the world day by day, causes great confusion and intense irritation in the cotton trade.

Take first the effect on hedging. Practically all cotton men are agreed that the paramount function of the cotton-future market is to provide a "hedge" for the cotton merchant. The essence of a hedge operation is the balancing of a speculative loss in the spot market by a speculative gain in futures (or vice versa) in such manner that a cotton merchant may largely eliminate speculative risks for himself and reckon with substantial, though not complete, certainty on a trading margin or commission. theory is that if cotton which he buys in the spot market ahead of orders from mills declines, then a future contract sold on the exchange will likewise decline in substantially the same measure. Thus, broadly speaking, his loss on spot cotton is offset or balanced by a profit on the exchange contract sold as a hedge. If, on the other hand, cotton advances, the speculative profit thereon will presumably be offset by a loss on the future contract which must be bought back at a loss. Although the merchant could deliver his cotton on contract, if of tenderable grade, ordinarily he does not want to do this as he needs it for private transactions with spinners. He uses the exchange contract merely as a means of avoiding a speculative loss. In return for this protection he is willing to forego a speculative, as distinct from a trading, profit. He allows for such a trading profit or commission, of course, in naming the price at which he will sell to the spinner. Largely owing to the substantial protection which the hedging function has afforded when the future system has operated normally, this commission of the merchant has been sharply reduced. Hundreds of thousands of bales are ordinarily handled at a middleman's charge of not over 50 cents per bale—often less. At 10 cents per pound for cotton, this is only 1 per cent of the gross value. This means that the benefits of hedging extend to the spinner, and presumably through him to the consumer.

Absolute protection by hedging cannot be secured, and, indeed, complete protection is possible, even in theory, only for middling cotton, the basis grade. But since fluctuations in the "differences" for other grades are ordinarily small as compared with those in the price of middling, the merchant relies on his future contract, bought or sold as a hedge, as the case may be, to afford him a very substantial protection.

It is clear that the successful conduct of such hedging operations depends on the maintenance of a reasonably constant margin or parity between the price of middling cotton in the spot market and the price of basis middling contracts on the exchange. In particular, the price of the "current" or "spot month" future should maintain a fairly constant parity with the current spot price of middling. There is ordinarily a small margin to compensate the buyer for expense and trouble in disposing of a mixed assortment of grades such as may be expected on contract deliveries.

Obviously, anything which irregularly depreciates the value of the future contract in its relation to middling impairs the usefulness of the contract as a hedge. This has happened repeatedly on the New York Cotton Exchange when the flat differences of the exchange have become out of line with those in the spot market. An aggravated instance occurred in the season of 1906-1907 when the margin between the price of middling cotton and of current futures widened from about ½ cent to nearly 2 cents. This was almost entirely due to the failure of the revision committee to make the contract differences off for low grades correspond with unusually wide differences in the spot market at the time, and to the lack of opportunity for further revision during the rest of the cotton season.

This abnormal widening of the margin resulted in enormous losses to hedging merchants. In the face of an advancing tendency in the spot price of middling, their future contracts declined heavily. Thus, contracts bought as a hedge not only failed to protect them but proved a source of added loss. Speculative buyers, of course, suffered also. Hundreds, if not thousands, of these were speedily wiped out—a veritable slaughter of innocents. Since the fiat differences could not be changed for nearly a year no one was ready to receive cotton on contract. There was a strong demand for a reconsideration of the revision committee's decision, but under the rules of the exchange this could not be had. Instead, the erroneous differences of necessity worked themselves out through the contract price, bringing loss or disaster to all holders of contracts.

Those who defend such arbitrary fixing of grade differences for long periods rely in the main, or at least in large part, upon the contention that the seller must have a "calculable" contract. In other words, that the seller who intends to ship cotton to New York from the South must know in advance what he will receive for the particular grades which he is to deliver. If, when the seller made his contract, he named the grades which he would deliver, the case would be different. But ordinarily the seller himself does

not know, when he enters into his future contract, what grades he will deliver. This, as already pointed out, is why sellers want a basis contract. Since fixed contract differences are bound to be out of line, more or less frequently, with the true differences, a depreciated contract price follows as an almost inevitable consequence. In short, the argument of a "calculable" contract means that the effort to protect the few sellers who actually ship cotton to New York will more or less constantly disorganize the future market to the injury of the vast number of others using the market, either for purposes of hedging or for speculation. The arbitrary injection of this element of uncertainty into the market means that intelligent speculation becomes more or less impossible. Since the buyer cannot know what kind of cotton he will receive he cannot adjust his operations to meet a future change in grade differences in the spot market. Under the commercial difference system the buyer of contracts should not be affected by changes in the differences.

Not only may such fiat differences cause loss to the speculator and to the non-speculative cotton merchant, but they also tend to injure the cotton producer and the spinner. The distorted future prices brought about by such differences inject disorder and irritation into the cotton trade the world over.

The cotton producer in a great number of cases sells his crop at so many points-hundredths of a cent-on or off the price of New York futures. (These points on or off should not be confused with the contract differences.) Hence a distortion of the future price tends, at least, to affect the price he receives for his cotton. Elaborate price studies given in the report of the Bureau of Corporations show that in the main the influence of such distorted future prices is overcome by competition, which forces the buying merchant to pay more points on (or fewer points off), as the future price is arbitrarily depressed. But it is reasonably clear that during the process of adjustment a real and at times probably a substantial injury is done the producer. And whether the injury is real or fancied, great or small, this distorted future price has been a red rag to cotton producer and to spinner alike. Denunciation of such distorted future quotations in the South has often been violent. Yet it is hardly more severe than a formal resolution of the American Cotton Manufacturers Association adopted at Richmond, Va., in 1908, in part as follows:

It should be clearly borne in mind that the great mass of buyers of goods, particularly buyers for export, base their ideas of the value of goods upon contract quotations on the New York exchange, and that these buyers are wholly misled, therefore, as to the cost of raw material in the manufactures. Being thus misled, it takes a constant effort on their part to keep prices of the manufactured article from falling below what the manufacturer can possibly sell at. Under such circumstances erroneous market quotations become a curse to the manufacturer and to the producer, and we feel that the New York exchange must rectify its contract so as to make the contract responsive to the spot condition.

Such, in brief, are the more serious evils which have resulted from the discredited methods formerly employed on the New York Cotton Exchange. Under fiat differences an element of vagueness is injected into the contract, making the hedge a doubtful protection and diffusing uncertainty through commercial transactions in cotton the world over. Under commercial differences, on the other hand, the future contract should be closely responsive to changes in the price of middling cotton for similar deliveries.

It has been objected, by defenders of the flat difference system, that disturbances of the future market under commercial differences at New Orleans and Liverpool have been as severe as those at New York. So far as the New Orleans market is concerned, this charge is effectively refuted by the report of the Bureau of Corporations. At times the normal relationship of future and spot quotations has not been maintained there. This is apparently due in part to the limited volume of dealings in futures in New Orleans, making that market sensitive to errors in differences or to clique manipulation. The important point is that if errors occur at New Orleans there is opportunity to correct them at once. That such correction has not always been immediate must be charged to human frailty or inertia, and not to an inherent vice in the contract itself. Similar explanations apply to the Liverpool market. There is the added consideration that the Liverpool contract has attempted to provide for the delivery of "extra staple" cotton, i.e., cotton of extra long fibre. Such cotton often fluctuates in value very sharply. A difference of even 1/16 of an inch in length may in some seasons mean a difference of over a cent a pound in value. More important, there is often wide difference of opinion among arbitrators who pass on contract deliveries, not only as to the value of such cotton but even as to the exact length. This causes uncertainty and inconsistency in the awards of arbitrators and at times has severely disturbed the value of the Liverpool contract in its relation to spot middling.

The obvious remedy for this evil is to forbid or at least discourage the tender of such troublesome cotton on exchange contracts. This was done at both New York and New Orleans by limiting the allowances to be added to the contract price for cotton of extra staple length to a small fraction of a cent per pound. This was virtually a penalty and ordinarily kept such cotton out of deliveries. Under a recent amendment to its rules, moreover, the New York exchange makes no allowance whatever for extra staple cotton unless this is permitted by the Secretary of Agriculture.

However, whether the commercial difference system has worked well or badly at New Orleans or Liverpool becomes a question more or less academic beside the practical consideration that the New York Cotton Exchange is perforce committed to its re-adoption. The real problem now is to assure the commercial difference system at New York a thorough and fair test. Much will depend on the fidelity with which the contract differences are ascertained from day to day. Recognizing that the narrowness of the spot market may at times, or even frequently, fail to afford sufficient basis for close determination of differences, the Cotton Futures act provides that in this event these differences "shall be determined by the average actual commercial differences," on the sixth day prior to the date of delivery "in the spot markets of not less than five places designated for the purpose from time to time by the Secretary of Agriculture."

A practical difficulty arises here because these differences must, under the act, be based on the official cotton standards of the Department of Agriculture, whereas these standards have not yet come into general use in Southern spot markets. To meet this situation the act confers power on the Secretary of Agriculture to prescribe rules by which the differences for such grades as he may select in the open market shall in effect be translated or modified on terms which will make them applicable to the official standards.

This, it may be objected, is merely the substitution of the fiat of a government official for the fiat of an exchange committee. But there is this vital distinction: the differences ascertained by or under the rules of the Secretary of Agriculture can be changed in twenty-four hours if shown to be erroneous, whereas the fiat differences of the revision committee established on the third Wednesday of November could not be changed by the committee, or even by the exchange itself, for nearly a year.

The classification of cotton is not, and cannot be, an exact science, and doubtless differences established under the Cotton Futures act will at times be challenged. A speedy adoption of the official government standards in all large spot markets would greatly facilitate the operation of the act.

Since, ordinarily, changes in the actual differences from day to day or even from week to week are but a small fraction of a cent, the margin of error in ascertaining or approximating that fraction should always be small and usually trifling. A repetition of the experience of 1906-1907, when the New York contract differences for certain grades became a cent or more out of line with those in the spot market, should be virtually impossible.

Therefore, while no system can be ideal in actual operation, a vast improvement is wholly practicable if the cotton trade and especially the New York Cotton Exchange will sincerely cooperate with the federal government. It is gratifying to note that recent changes in the by-laws and rules of the exchange, and the tenor of recent committee reports give assurance of such cooperation. It should be recognized in this connection that a large portion of the members of that exchange, at times even a majority, have long favored a reform of its contract. But as the exchange by-laws required a larger vote on this matter, earlier attempts at reform were unsuccessful.

While the provisions for establishing grade differences are by far the most vital features of the Cotton Futures act, several others should tend to material improvement in organized speculation in cotton. One of these, apparently trifling, but really of great importance, is the clause in section 6, stipulating that every bale of cotton delivered on contract be identified with its grade.

Hitherto no such bale-by-bale identification has been made at New York. While the receiver of cotton on contract was furnished a list of the number of bales of each grade in a tender, he had no ready means of telling which bales were of a particular grade. He would ordinarily have to sample an entire "lot," which on the average includes about 10 bales but which may run anywhere from 1 to 100 bales. This is an expensive and cumbersome process. It is claimed that methods of warehousing in New York, particularly the placing of cotton in high tiers (due to heavy cost of rent), make it impracticable to employ a bale-

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by-bale identification with grade, by means of tag or otherwise. That there is a practical difficulty here may be conceded. Apparently it will now be determined by actual test instead of fruitless debate whether this difficulty is insurmountable. Such identification, it may be noted, was recommended some years ago by a committee of the exchange as entirely feasible.

Assurance that these various improvements will be actually secured rests largely on the powers of interference by the Secretary of Agriculture. Not only may be prescribe the methods of determining contract differences but he is constituted an umpire, or referee, in disputes over grade. Back of this is the prohibitive tax of 2 cents per pound on contracts which fail to meet the requirements of the act.

To business men who regret the steady tendency toward more and more government regulation—as distinct from government supervision—of commercial transactions, the power thus conferred on a Cabinet officer appears unfortunate. Whether it will lead to still closer control of cotton exchanges or, extending beyond them, involve other speculative exchanges as well, is by no means the least interesting question prompted by this new legislation. It should be unnecessary to elaborate the moral that adorns the tale.

LUTHER CONANT, JR.

SOME ECONOMIC PROBLEMS OF RAILROAD VALUATION

On March 31, 1913, Congress enacted a law directing the Interstate Commerce Commission to investigate, ascertain, and report the value of all property owned or used by every common carrier subject to the provisions of the Interstate Commerce act. The commission is required to report in detail as to each piece of property, "the original cost to date, the cost of reproduction new, the cost of reproduction less depreciation, and an analysis of the methods by which these several costs are obtained, and the reasons for their differences, if any." The act provides further:

The commission shall in like manner ascertain and report separately other values, and elements of value, if any, of the property of such common carrier, and an analysis of the methods of valuation employed, and of the reasons for any differences between any such value, and each of the foregoing cost values.

Second. Such investigation and report shall state in detail and separately from improvements, the original cost of all lands, rights of way, and terminals owned or used for the purposes of a common carrier, and ascertained as of the time of dedication to public use, and the present value of the same, and separately the original and present cost of condemnation and damages or of purchase in excess of such original cost or present value.

Third. Such investigation and report shall show separately the property held for purposes other than those of a common carrier, and the original cost and present value of same, together with an analysis of the methods of valuation employed.

The broad requirements of the act place a stupendous task on the commission and on the railroads. The necessity of concentration of effort and of coöperation between the government authorities and the carriers was manifest from the outset. The Interstate Commerce Commission promptly organized a department of valuation, which is being assisted by a general conference committee of railroad presidents, by engineering committees of the railroads, and by the valuation departments of the individual companies.

Because of the magnitude of the work, progress in outlining definite policies and procedure has been slow. Conferences between representatives of the commission and of the railroads will result in definite and standard instructions regarding certain matters of procedure. But the important economic problems involved in the question of valuation have not been worked out; and this paper is concerned with the difficulties in solving these problems.

One of the principal sources of difficulty which will probably be met throughout the whole task of valuation is the lack of definite terminology. There is nothing in the congressional act to indicate that any limitation upon the meaning of "value" was intended, or that "value" in its broadest sense was not meant, or that the valuation is to be for any particular purpose. The legal theory of fair value is comparatively new. The Supreme Court in a frequently quoted opinion (Smith v. Amcs) has laid down certain elements of value, but has not weighed them in any definite scale.1 Moreover, in the numerous opinions of courts, commissions, and legislatures, there is a constant and seemingly unavoidable confusion of "cost" and "value." This has resulted in a distortion of the economic concept of value, and a substitution of engineering and accounting opinions for the standard dicta of classical economists. The terms "physical value" and "fair value"-now so flagrantly misused—have not the definiteness of concept which economists of the past generation considered essential for the establishment of an economic doctrine.

Merely to summarize the many conflicting definitions of the various kinds of "cost" and "value" requires greater space than is afforded by this paper. Dr. Whitten, in his excellent treatise, attempted to cover the field fully, but since its first publication, in 1912, so many new opinions have been uttered and so much new material accumulated that he has recently issued a supplementary volume. There is evidence in the Valuation act that Congress legislated with no fixed ideas regarding the elements of "cost" and "value." The broad scope of the law has led Mr. Prouty, director of valuation, to interpret it as something more than a mere engineering problem.

It is for the commission to marshal every fact obtainable with respect to the present condition and the past history of our railways, and from a just consideration of all these facts to determine the fair values of all the properties today.³

¹The elements of "fair value" as stated by Justice Harlan are: "The original cost of construction, the amount expended in permanent improvements, the amount and market value of bonds and stock, the present as compared with the original cost of construction, the probable earning capacity under particular rates prescribed by statute, and the sum required to meet operating expenses are all matters for consideration and are to be given such weight as is just and right."

² Valuation of Public Service Corporations.

¹ Address delivered at the second annual meeting of the Chamber of Commerce of the United States, Feb. 11, 1914 (Ry. Age Gaz., Feb. 13, 1914).

Some of the matters requiring careful consideration before the work of federal valuation is completed are:

- The basis of "reproduction cost";
- 2. The so-called non-physical costs;3. The basis of determining depreciation and appreciation;
- 4. The valuation of right-of-way and other real estate.

1. The basis of reproduction cost. The Valuation act requires the Interstate Commerce Commission to investigate and to report in detail the "cost of reproduction new and the cost of reproduction less depreciation." Inasmuch as the "cost of production" in many public utility controversies has been made the basis of "fair value for rate making purposes," the estimate of reproduction cost seems to be regarded by the commission as the most serious problem of its valuation work.4 The initial task is the adoption of a standard conception of "reproduction cost." At the present time there are numerous conceptions. Cost of reproduction may mean the cost of a substantially identical reproduction of the existing plant; it may mean cost of a substitute plant of the most modern approved design capable of performing the same service as the existing plant; or the cost (at present prices of land, labor, and materials) of reproducing the existing plant under the actual conditions of its original construction.

Discussion of reproduction cost may be confined to one question, namely, whether the estimate should be based on the actual conditions under which the property was promoted and built, or whether present conditions of construction and organization shall be assumed. Mr. H. P. Gillette, an engineer of considerable valuation experience, holds that the appraiser must base his appraisal on the actual conditions under which the property was built and operated:

If trees were cleared, then he must allow for the cost of clearing, though not a tree may now be standing. If streets were graded, then the grading must be estimated, although to-day the entire city is as level as a floor. If quicksand was encountered in laying a pipe line, then the added cost of excavating it must be allowed even though subsequent works have drained the line so that it no longer has a yard of quicksand. If money was spent to educate the public to the use of the commodity sold by the corporation, then the money is a develop-

*Circuit Judge Sandborn, in Shepherd v. Northern Pacific Railway Co. (184 Fed. 765), held that the "master rightly decided that the cost of reproducing this property new was a more rational and reliable measure of its real value than the original cost of its acquisition or the market values of the stocks and bonds of the companies; and upon that basis he made his findings."

ment expense which must be allowed even though the expense would not be incurred by a new corporation of like character. If the corporation has built railway lines to develop a country and has not only spent money to get people to settle there but has experienced deficits below a fair return on its investment until the country has become sufficiently populated, then this development expense must be allowed.⁵

This theory is opposed by those who contend that "reproduction" means replacement and has reference only to the present. So varied have been the opinions on this point that Dr. Whitten in a recent article proposes a compromise; namely, "normal actual cost." This would allow for actual cost of reproduction only when the conditions under which the property was constructed were normal conditions.

The assumption of "reproduction cost" under present conditions entails a proper and careful computation of "unit prices" in addition to the task of estimating the ratio of contingent and other non-physical costs. The replacement cost is the sum of money which would have to be expended at the present time to reproduce a physical property identical with that in existence and used for the benefit of the public. In arriving at the cost an inventory of the entire physical property must be made and to every unit found in the plant must be applied costs representative of what would have to be paid today for the material and for the labor necessary to place the material in the position now occupied by the existing plant. Thus, the estimate of unit costs involves (a) a determination of the price of physical material and equipment at the place of erection, (b) the cost of labor of placement, including engineering, supervision, wastes, and contingencies, and (c) expense due to lapse of time represented by interest on capital during construction.

The estimates of unit prices of material are naturally based on current market quotations, with the addition of the cost of handling and of carriage. As pointed out by Mr. William J. Wilgus in the valuation of the Lehigh Valley Railroad, materials may be of two classes with respect to prices: (a) those that rise and fall with financial and industrial conditions and should therefore be based on averages over a period of years; and (b) those that show an upward price tendency, such as ties, piling, lumber, ballast, etc. The reproduction cost of the latter is more properly

⁶Proceedings of the American Society of Civil Engineers, vol. LXXIII, p. 382.

[&]quot;Fair Value for Rate Purposes," Harvard Law Review, vol. XXIII, p. 18.

based on current quotations at the time of valuation. In all cases it is essential to add to or include in the estimated price, the cost of carriage, handling, and storing. In estimating this class of supplementary expenses, it is logically to be assumed that the facilities of the transportation company undergoing valuation do not exist. In other words, "proper additions should be made to current prices to ascertain what would be the correct unit prices for the railway and its branches if these were assumed as being blotted out."

Another supplementary item of expense likely to be overlooked in estimates of reproduction cost is the incidental waste arising from the necessity of having surplus supplies of materials on the ground. The removal of small unused portions is frequently uneconomical. On the other hand, a deficiency in supplies, though of very small amount, may result in loss of time and added costs. Abandonment of surplus materials such as unused ballast and cement, broken bundles of shingles, cut timber, and the like, is an incidental feature of all construction and therefore an element of reproduction cost.

Unit prices of labor are far more difficult to determine in estimates of reproduction cost than are material prices. On a large piece of work, such as the building of a trunk line railroad, it cannot properly be assumed that the labor supply is as readily available as on a small piece of construction. For not only is there a limited labor supply relative to the demand, but also inability to obtain the most competent contractors on all parts of the work. This condition was experienced in the building of the first New York City subways, when the intensified demand for certain classes of labor led to the payment of wages much above the prevailing rates. Moreover, it is a well-known fact that in times of industrial prosperity and increased demand for labor, inefficient employees, who in dull times would not be accepted, come in on the same terms as the efficient, resulting in higher costs relative to productivity. Matters of this kind do not admit of exact mathematical computation, yet due consideration must be given them in equitable appraisals of "reproduction value."

2. Non-physical costs. It is freely admitted that whatever policy of valuation is adopted, full allowance is to be made for the so-called non-physical costs. These expenses are usually

^aJ. E. Willoughby in Proceedings of the American Society of Civil Engineers (April, 1914), p. 1161.

classified as interest, engineering, and contingencies. They comprise all outlays involved in the inauguration, acquisition, assembling, and installing of the physical factors of a plant or property. Such charges are inseparable parts of the cost of placement, but bear no fixed relation to the cost of materials or of labor. Unless records of actual outlays are available, therefore, considerable difficulty is experienced in establishing a proper basis for their computation. In public utility valuations made by state authorities, the "non-physical" costs have varied from 5 per cent to 35 per cent of the physical costs. It is a known fact that in most cases there has been no "experience" basis for the estimate. No means are available for standardizing these costs. Few properties, however similarly constructed and similarly situated, have the same rates of "overhead" charges. The prices of rails, ties, bricks, etc., are readily obtainable; freight charges are known; and labor costs in the placement of material can be approximated; but the specialized services of deliberating, planning, devising, promoting, experimenting, and superintending bear no fixed relation to the current cost of the materials or to the prevailing rates of wage remuneration. Moreover, time is an important factor in construction costs. The "quantities" of time are as much dependent on the play of the elements as on human energy.

The estimate of interest on capital outlay during construction is an exceedingly complex problem. Interest is ordinarily computed and paid at semi-annual intervals. Accordingly, if the construction period extends beyond a half year, the rate, to represent "actual normal cost," should be compounded. The absence of compounding would mean a considerable reduction in the reproductive cost of large railroad systems. Mr. Wilgus, in his appraisal of the Lehigh Valley, estimated that by compounding interest during the estimated period of construction on the \$352,-000,000 of capital, the total reproduction cost was enlarged by \$18,150,000. It can hardly be claimed that the requirement of compounding is unnecessary because the capital outlay is not immediate but is made only as the work progresses. It has long been regarded as a sound financial maxim that the capital required for a business enterprise should be fully available at the outset, for otherwise costly delays may result at some stage because of lack of funds. When capital is awaiting investment, it'r ely receives a return even approximate to that which must be paid for its permanent use.

In estimates of reproduction cost, the concept of "going value" as an element of capital outlay appears to be assuming definite shape. Probably the best explanation of this concept is contained in a recent opinion of the New York Court of Appeals in Public Service Commission v. Kings County Lighting Company:

It takes time to put a new enterprise of any magnitude on its feet after the construction work has been finished.... The company starts out with the "bare bones" of the plant, to borrow Justice Lurton's phrase in the Omaha Water Works case (supra). By the expenditure of time, labor and money, it coördinates those bones into an efficient working organism and acquires a paying business. The proper and reasonable cost of doing that, whether included in operating expenses or not, is as much a part of the investment of the company as the cost of the physical property.

The investors in a new enterprise have to be satisfied as a rule with meager or no returns while the business is being built up. In a business subject only to the natural laws of trade, they expect to make up for the early lean years by large profits later. In a business classified among public callings, the rate-making power must allow for the losses during the lean years, or their rate will be confiscatory and of course will drive investors from the field. In the former class, the value of the established business is a part of the "good will" and may be determined by taking a given number of years' purchase of the profits, or exchange value may be considered. In the latter case, a different rule must be adopted. . . . Obviously, the most satisfactory method is to show the actual experience of the company, the original investment, its earnings from the start, the time actually required and expenses incurred in building up the business, all expenditures not reflected by the present condition of the physical property, the extent to which bad management or other causes prevented or depleted earnings and any other facts bearing on the question, keeping in mind that the ultimate fact to be determined is not the amount of the expenditures, but the deficiency in the fair return to the investors due to the causes under consideration.8

In the foregoing opinion it is readily apparent that "going value" is closely akin to what is frequently termed "development costs." Expenditures representing "going value" comprise not

The following are important cases in which "going value" has been defined: National Water Works v. Kansas City, 62 Fed. Rep. 853.

Kennebec Water District v. Waterville, 97 Maine 185; 54 Atl. 6.

Gloucester Water Supply Co. v. Gloucester, 179 Mass. 365; 60 N. E. 977.

Town of Bristol v. Bristol & W. Water Works, 23 R. I. 274; 49 Atl. 974.

Norwich Gas & Electric Co. v. City of Norwich, 76 Conn. 565; 57 Atl. 746. Omaha v. Omaha Water Co., 218 U. S. 180.

Public Service Gas Company v. Public Utility Commissioners of New Jersey, 85 N. J.; 87 Atl. 651.

[&]quot;Going value," however, is frequently confused with "good-will." Thus

only the initial outlays for establishing a sound business on a paying basis, but also certain losses arising from property abandonments and changes in physical structure required to perform properly the service of transportation. Thus, the losses caused by changing a narrow gauge line to a standard gauge when brought about by a growth of business stimulated by the initial road, is to all intents and purposes a "developmental" cost. The business furnished by the territory traversed when the line was first constructed may not have been sufficient to warrant the capital outlay required by a standard gauge with easy curves and gradients. The building of the narrow gauge line, however, caused industrial development and population growth rendering it inadequate and entailing both an enlargement of the gauge and changes of location. The first line, therefore, was essential to bring about the construction of the second; and on this ground a reasonable portion of the loss due to the abandonment of one line may be classed as a developmental expense, and included in the cost of the new line in the same manner as the false work on a bridge is included as part of the cost of the permanent structure.10

One of the so-called intangible items that is generally not given its proper weight in valuations of large concerns is the cost of assembling expert workmen to construct, inaugurate, and efficiently operate the enterprise. In all new business undertakings there is generally heavy initial expense of training the construction and operating forces. Accordingly, operating efficiency, arising from a trained and well-disciplined working organization, is frequently the result of actual investment. It is, therefore, an essential element in the "reproduction value of a going concern." That it is a neglected element is due largely to the fact that neither the courts nor the general public can comprehend fully all the items of expenditure in the building up of a successful business. It is the function of economists to ascertain all of the necessary and proper elements of cost or value that are involved in the final completion of a public utility, built in a manner conforming to practical human experience with full allowance for the fallibility of human judgment.

the Georgia Railroad Commission in a recent case: "As we understand the term, it means a value due to the fact that a plant has consumers actually using its product; that it is in actual and successful operation and has attached to it a developed business." See *Public Service Regulation*, Sept., 1914, p. 502.

²⁸ For an early estimate of the "developmental cost" of a railroad system, see Eugene V. Smalley, *History of the Northern Pacific Railroad*, p. 64.

3. Depreciation. The Valuation act requires that an estimate be made of the "cost of reproduction less depreciation." The meaning of the term "less depreciation" as used in the act, the methods appropriate for the ascertainment of the amount thereof, and the values or elements of value which may offset the same, are therefore among the prominent matters requiring adjustment in the valuation task.

Provisions for losses in value due to depreciation are a different matter altogether in valuations from depreciation provisions common in accounting practice. This is particularly manifest in the case of a composite property such as a railroad. It has been pointed out by Mr. Frederick A. Delano and Mr. Richard J. Mc-Carty¹¹ that the depreciated condition of a railroad property in use is seldom below 50 per cent, and on a property well maintained the condition per cent (i.e., original condition less depreciation) is not very much below 100 per cent. In ordinary business practice, provision for depreciation (particularly when based on so-called "mortality tables") covers the cost of renewal when the piece of property in question is expected to reach a condition requiring renewal. It has no reference to loss of original condition due to use. In other words, depreciation accounting aims to provide for the replacement in bulk of the capital investment in an item of property at the time when such property is no longer profitable to retain in use. In this way the renewal expense, as well as the depreciation expense, is prorated over the period of the life of the use of the property. This method cannot, therefore, be properly applied in valuation. In valuation, it is not a matter of providing for the replacement of capital investment. It is merely a matter of determining the investment represented in the property on a definite date. If the property is absolutely new, the condition is 100 per cent; but, since through use or lapse of time some deterioration from the original condition may result, there may be a certain loss of value, though not necessarily. This loss in condition has no necessary relation to depreciation accounting. Accordingly, depreciation accounts cannot properly be used for measuring condition per cent.12 In the most recent report (1914) of the com-

^u F. A. Delano, "Application of a Depreciation Charge in Railway Accounting," in *Journ. Pol. Econ.*, vol. 16 (Nov., 1908), p. 585; Richard J. McCarty, Depreciation of Railroad Property (Kansas City, 1914).

¹³ This opinion has been supported by Mr. Charles Hansel, a valuation engineer, who holds that "In the determination of the present reasonable value of the segregated parts of a railroad or other public utility, we are not

mittee on railroad valuation of the National Association of Railway Commissioners, it is admitted that there is a distinction between depreciation as an engineering question and as an accounting question. This report states:

From the engineering aspect we get light upon depreciation by considering it as a condition at a given time of a piece of property as compared to new. The bookkeeping aspect has to do with setting up of a bookkeeping method for the purpose of accumulating a fund which in a given time on a straight line, curve or other formula, will accumulate a certain amount of money. One deals with a theoretical condition; the other, with actual. Whenever an attempt is made to determine the reproduction cost less depreciation, we of necessity must follow the condition per cent idea and deal with the actual.

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Mr. McCarty, vice-president of the Kansas City Southern Railway, in his pamphlet entitled Depreciation of Railroad Property, cites the instance of one wooden trestle costing \$1000 which it is necessary to renew each year, and another trestle built at a cost of \$1500 but having an expectation of ten years' use. He concludes that in the first case the cost of maintenance in ten years will be \$10,000; and in the second instance, but \$1500. The apparent disparity is due to the failure to distinguish between the renewal expense and actual depreciation or loss of condition. With the \$1000 trestle it is merely a matter of annual renewal, whereas in the case of the \$1500 trestle, because of annual accounting periods, there is the element of annual loss of condition over ten years of \$50 per year and also the minimum cost of replacement, \$1000, at the end of ten years. In making a valuation of the trestle, the minimum value in either case would be in the neighborhood of \$1000. In accounting for the investment represented in the trestle which is renewed annually, the books at the end of the year, i.e., the time just previous to the renewal of the trestle, may show full capital investment for this item, or, instead, a renewal or reserve fund of \$1000. It can be seen, therefore, that a value of approximately \$1000 may be put on the property, though the books may show the value entirely extinguished—this value having been converted through charges to income into other forms of assets.13

assisted by any formula of depreciation to be applied as an accounting method." Proceedings of American Society of Civil Engineers, vol. XI (April, 1914), p. 1912.

"Professor A. A. Young in a recent article on "Depreciation and Rate Control" (Quart. Journ. Econ., Aug., 1914), concludes: "In valuations for

The failure to properly distinguish the accounting concept from the engineering concept of depreciation is resulting in much confusion and controversy. The engineering profession, because of its predominance in recent valuation work, tends to invade a field hitherto beyond its own bailiwick. As pointed out by vice-president McCarty of the Kansas City Southern Railway, the work of the engineer terminates at the point at which the quantities and values for use of the different parts of the physical property of any given public utility shall have been determined, and from this point forward the problem ceases to have particular significance to him. The reason for this is that the determination of the elements of value of a public utility, and the application of such values in determining the amount on which a public service corporation is entitled to a fair rate of return, are problems of an entirely different character and belong to entirely different departments of thought and experience. 14

The engineering idea of depreciation with respect to units of physical property is primarily a measure of condition of physical parts. There is accordingly no necessity to compute estimates from the standpoint of probable life, though as a bookkeeping exigency this is required in modern accounting practice. A locomotive after several years' use may perform its service more adequately than when first put into operation, and, if after a number of years it is constantly restored to full efficiency through operating expenditures (even though all its original parts have been entirely renewed), there will be no real depreciation other than that represented by deferred maintenance. Of course, the element of obsolescence may be present, but this is an entirely different matter. Obsolescence is a contingency which may become a fact without reference to physical condition. Experience furnishes no safe basis for its future trend, and hence it is not adjustable to a formula.

The principles of depreciation as defined in accounting practice and from an engineering viewpoint are not necessarily conflicting. In fact, under certain conditions the amounts determined by each method may be very similar, and the "depreciation reserve" may purposes of rate control, no deduction should be made on account of the depreciation of large and varied properties, except for depreciation allocated to a period in which depreciation accruals are regularly charged to operating expenses."

¹⁴ Proceedings of the American Association of Civil Engineers, vol. XI, no. 4 (Apr., 1914).

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be used as a basis for estimating actual physical deterioration of value. For example, in relining blast furnaces, where the relining can only be done conveniently at relatively long intervals, a depreciation reserve set aside for this purpose may be used fairly to estimate the loss in value due to the use of the furnace. In this case the depreciation reserve covers merely the deferred maintenance which has been necessarily deferred because of the fact that when the furnace is in operation the repairs cannot be made concurrently with the deterioration. In fact, the reserve is required merely because the intervals at which the relining is done do not coincide with the periods when the earnings are computed.

The different principles involved in engineering valuation and prevailing bookkeeping methods may be illustrated with reference to appreciation. It is widely contended that appreciation of certain items of property such as land, embankments, etc., is an offset to depreciation of certain wasting assets; but in common accounting practice, although depreciation is considered a loss which must be deducted from profits, i.e., a debit against operation, appreciation is not placed as a gain or a credit. The reason is that no entry is made on the books to cover any increase in the value of assets unless such increased value arises from a transfer or sale. Thus, while entries may be made to cover depreciation, no entries are generally made to cover appreciation unless such appreciation is realized in cash or equivalent.

The appreciation of a railroad property is undeniably a significant element of value.¹⁵ It may be due to other causes than the so-called "unearned increment" arising from natural causes and from increase of population and wealth. The increment due to solidification and adaptation is not a work of nature similar to reforestation. It was recognized early in railroad history that current maintenance during a number of years after a line is in operation covers in part additional construction cost. The repairing of slopes, of cuts and embankments, the improvement of drains and water courses, the solidification of sub-grade and ballast, all involve considerable expense which has not been added to capital account. ¹⁶

¹⁵ For decisions involving the appreciation of land values, see *Wilcox* v. Consol. Gas Co., 212 U. S. 52; Stanislaus v. Irrigation Co., 192 U. S. 215; San Diego Land Co. v. Nat. City, 174 U. S. 757; L. & N. R. R. v. R. R. Com. of Ala., 196 Fed. 800.

¹⁶ See (N. Y.) State Engineer's Report on Railroads, 1854, p. 6, where it is stated: "It has been questioned whether the cost of these items is a proper charge to construction or to cost of operation."

The general practice of the state commissions has been to deduct a percentage for depreciation from the various units entering into the valuation. It would seem that appreciation ought to be allowed for in the same manner, and in many cases it has been. In making an appraisal of the Spokane and Inland Empire Railway, the public utilities commission of Washington fixed 110 per cent of the reproduction cost new as the value of the grading at the time the valuation was made. In Minnesota, appreciation was provided for by a separate item, "adaptation and solidification of roadbed," amounting for all the roads in the state to \$11,743,007, which was 21 per cent of the reproduction cost of the grading, clearing, and grubbing. In the valuation by the Massachusetts commission of the New York, New Haven and Hartford an allowance of \$500 per mile, or a total of \$805,-000, was made for solidification, this being considered by the commission as very conservative. An allowance was also made by the Washington commission in its railroad valuation-

4. Land valuation. The problem relative to the determination of land values is twofold: (a) What method is to be applied in the determination of the present or actual value of the right-of-way and (b) how is this method to be applied uniformly to all classes, terminal, city, suburban, and agricultural land?

No definite legal principles have been established for the valuation of railroad right-of-way. Court opinions in such matters have been confined largely to taxation disputes. As pointed out by Mr. F. W. Stevens of the New York Central Lines, 17 however, these economic facts are well established:

(a) The use of the right-of-way requires it to be considered as a homogeneous parcel.

(b) As a homogeneous parcel, it has greater value based on its use than the great number of little parcels which were acquired in making up the whole.

This last statement is confirmed in the well-known dictum of the Supreme Court:

There is a value created by and resulting from the combined operation of its (i.e., the railroad) parts as one continuous line. (C.C.C. & St. Louis Ry. Co. v. Backus, 154 U. S. 439.)

The state practice thus far in computing right-of-way values has been confined largely to the ascertainment of the current prices of neighboring lands. There is an endeavor to limit the com-

[&]quot;F. W. Stevens, The Valuation of Railroad Right-of-way (1914).

parisons to lands in the vicinity "similarly situated," though it is rarely that one parcel of land equally useful for railroad purposes has all the physical, geographical, and topographical characteristics of a neighboring parcel. A public service company under nearly all circumstances is usually compelled to pay much more for right-of-way or terminal land than the prevailing or market prices. Moreover, in condemnation proceedings, the company must pay a price based on the most profitable possible use. The use to which land is put thus changes its value. Land which is very desirable for railroad right-of-way may be worthless for agricultural or grazing purposes; but if the same land is adaptable as a mill site or as a quarry, its most profitable use for any of these purposes will determine the assessment of damages to the owner because of its appropriation. In addition, there is extra cost or enhanced value for railroad purposes of any particular parcel because of the necessity for continuity of the right-of-way and the damages to the lay-out of adjoining lands arising from this necessary continuity.

Another element of added cost is the fact that right-of-way land is bought on a "retail, small-parcel basis," and therefore a higher price must be paid than when large uneven tracts are purchased without subdivision. ¹⁸ It has been the practice in previous railroad appraisals to allow for these and other added costs by the application of multiples. This means that to the computed average value of adjoining lands "similarly situated," a multiple (which has varied from 25 per cent to over 300 per cent) is added in an appraisal of right-of-way.

The use of multiples has been discountenanced in Justice Hughes' opinion in the Minnesota rate case. The objection here appears to have been directed against this "conjectural" method of appraisal and does not constitute a denial of enhanced cost

19 The California public service commission in the Los Angeles and Santiago Beach Railway case recently decided, based the value of land on the wholesale price, i.e., the amount real estate men would pay for tracks before subdivision. The company claimed that retail prices should be used. A mean between the two values was finally agreed upon. In accepting this, the commission remarked that "the mere fact that acreage property is subdivided into lots does not necessarily increase the value therof, nor does the fact that property is held at a certain figure indicate its true value." This would assume that the "similarly situated" basis of land appraisal has no bearing on public utility valuation, and that the purchase of large tracts of land by real estate operators is entirely without profit, all of which is contrary to actual fact.

of land for railroad purposes.¹⁹ The probable effect of the Minnesota rate case will be the necessity for determining and stating the value of each piece of land independently—a distinctly expensive proceeding, the results of which may not be more satisfactory than the "multiple" method.

In connection with right-of-way and land valuation, the incidental costs are an important element requiring careful consideration. Land rights include riparian rights and rights over streets and highways; also mining rights under tracks, in addition to the so-called severance and other damages paid to adjoining property owners and to communities. "A land-owner is entitled not only to the value of the ground taken, but also to the diminution in value of that from which it is severed." ²⁰ Damage costs, such as the changing of highway location or of the bed of a stream, the obstruction of bays or inlets, and the like are not represented in any physical item of the property, and, in the absence of actual records, may be entirely overlooked in an appraisal.

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¹⁹ The public service commission of the state of Washington recently discarded one of its previous valuations on the ground that the Minnesota rate case decision limited right-of-way values to the average fair market value of similar land in the vicinity.

²⁰ Rochester and Syracuse R. R. Co., v. Budling, 6 How. 467.

FARM CREDIT IN KANSAS

Early in the spring of 1914 the department of economics at the University of Kansas made an investigation of the rural credit situation throughout the state with a view to ascertaining whether there was sufficient foundation for the contention that our credit system is prejudicial to the interests of farmers and, if so, what remedial measures seemed to be most adequate. Schedules of questions relative to farmers' interest rates, credit transactions, etc., were sent to representative bankers, merchants, and farmers in each of the 105 counties. In the distribution of these schedules considerable care was exercised. An attempt was made to secure information from every county-seat and from at least one rural district within the county. Moreover, the questionnaires were so arranged that the statements of the various correspondents were available for comparison. Where any serious discrepancy appeared, the matter was satisfactorily adjusted through further correspondence. Altogether, replies were received from 179 bankers, 122 farmers, and 80 merchants. At least one banker and one farmer reported from each county.

Land mortgage loans. The capital requirements of the farmer are supplied by two forms of loans—the long-term and the short-term. The long-term loan is used in aiding to pay the purchase price of the farm, in making permanent improvements or, in fact, whenever the expense of productive equipment is too great to be met out of the income of two successive years. The security for

such a loan is the farm mortgage.

The mortgage loan—varying in amount from \$100 to \$10,000—is generally made for a term of five years with the provision that the mortgagor may reduce the principal by \$100 or any multiple thereof on interest-paying dates. Life insurance companies regularly invest in farm mortgages of the larger denominations which mature in five or seven years. Only a few ten-year loans are made. In some of the western counties, where a loan of \$300 is the most that can be made on a farm of 160 acres, a term of one or two years is common; but, on account of the uncertainty of land values in these parts, land mortgage loans are not popular with bankers. A decided preference is shown for chattel mortgages and personal paper.

The rate of interest on mortgage loans varies from 6 to 10

per cent. From the northern to the southern counties there is a gradual rise of from ½ to 1 per cent. Likewise, from the eastern to the western tier of counties there is an increase of approximately 4 per cent. The highest rate reported by western bankers is 10 per cent, but, on account of the heavy expense incident to the granting of a loan together with the fact that the demand for loans cannot be fully met, the actual rate is frequently usurious. Foreign capital discreetly avoids western Kansas and the farmer is at the mercy of the lenders of local capital.

In the eastern half of the state, life insurance companies make mortgage loans up to 40 and 45 per cent of the value of farm lands at 5 and 5½ per cent. To this rate, on a five-year loan, must be added the loan agent's commission² of 5 per cent, which makes an addition of 1 per cent to the rate recorded in the mortgage instrument. In some counties where competition is not a strong factor the agent's commission is much higher, but in no case does it cause a difference of more than 2 per cent between the rate paid by the farmer and the rate received by the insurance company.

Banks and mortgage companies seldom make farm loans for less than 6 per cent, but with these institutions the commission charge is not over 2 or 3 per cent on five-year loans. Usually the borrower pays the commission at the time the loan is made by having it deducted from the principal. For instance, a commission of 3 per cent deducted from a loan of \$500, maturing in five years and bearing 6 per cent interest, leaves the borrower a net loan of \$485. When he has paid interest charges of \$30 per annum and repaid the principal, his actual interest rate has been 6.8 per cent. On larger loans a second mortgage is frequently taken for the amount of the commission.

The following table shows the prevailing rate of interest3 on

*Eastern life insurance companies make extensive farm loans in only two of the 46 counties comprising the western half of the state—Barton and

*The commission charge is divided between the district or state agent who has general supervision over the company's loans in his territory and the local agent who solicits the loan.

*The questionnaires sent to farmers and bankers asked for the prevailing rate in each instance. Owing to a difference in the customary size and term of loans some variation in the rates reported was inevitable. It is significant that the rates reported from rural districts were frequently higher than the rates obtaining in county seats.

long-term loans by counties. The rates under 10 per cent include commissions.

TABLE 1 .- Rates of interest on long-term loans.

No. e	of cou	nties	1	49	to.	of to-	to J	of to-
Eastern	Western	Tota!	Rate of interest	Mortgage	Per cent of to tal mortgage indebtedness	Per cent of to tal rural pop- ulation*	Per cent of tal number farms ⁵	Per cent of to tal farm acre-
21	0	21	6	\$25,357,810	35.80	28.7	26.9	18.6
118	6	44	6-7	36,380,322	51.40	54.0	53.8	45.8
	6	6	7-8	918,084	1.30	1.3	1.3	2.4
				2,725,848	3.80	4.1	3.9	6.3
	11	11	8	3,207,220	4.50	6.2	6.4	12.8
	8	8	8-10	1,586,310	2.20	3.2	3.7	7.1
	13	13	10	644,152	0.09	2.7	3.4	6.6

In addition to the regular interest and commission charges the borrower bears the expense of establishing a clear title to his land. This cost is sometimes excessive, especially where the land has been subject to numerous transfers. In the majority of cases, too, the borrower pays the recording fee, the notary fees, and the charges for inspecting the property to be mortgaged. When all these expenses have been met by the farmer his actual cost of borrowing is from 1 to $2\frac{1}{2}$ per cent higher than the rate recorded in the mortgage contract.

Personal loans. Just as the long-term or land-mortgage loan is needed for the purchase and improvement of the farm, so the short-term or personal loan is necessary in the growing of crops. From the time the ground is prepared and the seed planted until the crop is harvested a period of six or nine months may have elapsed. In the meantime the farmer's income is small and his expenses heavy. He is obliged to make continual advances for the payment of wages and for the purchase of productive equipment and supplies. Funds are required not only to grow the crops but also to tide him over until his products have been sold.

Short-term loans for meeting these temporary claims are supplied by the banks and merchants. Bank loans, made on the personal integrity of borrowers or secured by chattel mortgages, are generally drawn for terms of three or six months with interest taken in advance out of the loan. Some thirty and sixty-day

^{&#}x27;Thirteenth Census of the United States, vol. VI, p. 578.

⁶ Ibid., vol. II, p. 674.

loans are made, but there is relatively a small demand for them. Owing to the nature of the farmer's occupation it is impossible for him to turn over his capital in so short a time. In fact, during the last five years a term of six months has been insufficient for the majority of borrowers, and renewal at maturity has become a general practice.

The rate of interest on short-term bank loans varies from 7 to 10 per cent. These rates, however, are slightly below the borrower's actual rate when account is taken of the method of making the loan. The deduction of 10 per cent interest in advance from a loan of \$1000 maturing in six months raises the actual rate to 10.55 per cent. And if, when the loan matures, the principal cannot be paid, this rate is maintained by adding the interest to the principal and renewing for a corresponding term. This practice, coupled with the fact that when a chattel mortgage is given as security the borrower pays the recording fee and inspector's charges, frequently makes the cost of short-term loans more than 1 per cent above the bank rate.

The following table, compiled from the reports of farmers and bankers, shows the prevailing rate of interest on short-term bank loans by counties:

Table 2 .- Rates of interest on short-term bank loans.

No.	of cou	nties				
Eastern	Western	Total	Rate of interest	Per cent of total farm acreage ⁶	Per cent of total number of cattle ⁷	Per cent of total value of imple- ents and ma- chinery ⁷
6 39 14	2 16 28	6 41 30 28	7-8 8 8-10 10	3.3 41.7 32.0 22.8	4.1 51.4 31.4 12.7	5.3 50.6 31.3 12.5

The merchant extends short-term credit to the farmer when he allows him the privilege of running accounts, or when he accepts a note given in payment for machinery, fertilizer, building material, and other supplies. Cash sales are not common although dealers invariably demand cash for seed. According to the estimates of 80 merchants who deal largely in farm supplies, not more than 25 to 30 per cent of such sales are made on a cash basis.

^{*} Thirteenth Census of the United States, vol. VI, p. 578.

¹ Ibid., 568.

Where book credit is freely granted it is customary for dealers, especially implement dealers, to add a larger margin of profit in the sale price. For instance, \$10 is added to the cash price of a header, \$5 to the cash price of a binder, and \$2 to the cash price of a mower. The difference between the cash and the credit price on standard implements varies from 5 to 10 per cent. When the account runs for a period of only six months, this difference is equivalent to paying a rate of interest well above 10 per cent.

Practically all credit sales are made on a fall settlement basis. In the western counties accounts are payable after August 1, or as soon as the wheat crop has been sold. In those sections where farming is more diversified, with corn as the leading crop, accounts are payable in October or November. It is not expected that these accounts will run for longer than six to nine months, but in adverse years the percentage of unpaid accounts may be very large. One dealer doing an extensive credit business in central Kansas estimates that 75 per cent of his book accounts in 1913 were carried over. Most dealers, however, who sell on a fall settlement basis sell on the understanding that if the account cannot be fully settled after harvest the farmer will give his note, bearing interest, for the amount unpaid.

Where book credit is not allowed the dealer reduces his margin of profit and, in lieu of cash, demands the farmer's note at the time the sale is made. Notes are payable in the autumn no matter when drawn. The exact date of maturity is made to correspond with the sale of the crop. But when the cost of a binder, header, or other heavy machinery is too great to be met out of the income of a single year, the privilege is sometimes granted of paying in two fall instalments, one payment being due immediately after harvest. For the balance a new note maturing a year hence is given. The rate of interest on these notes varies but little from one section of the state to another. A uniform rate of 8 per cent is reported by 49 dealers representing as many counties; 10 report rates varying from 8 to 10 per cent; 21 report uniform rates of 10 per cent. Naturally, the higher rates prevail in the western counties.

Are the rates high? For the purpose of ascertaining whether the general sentiment of farmers and bankers was favorable or unfavorable to existing rates the question was asked: "Do you consider the rates high?" In the replies from bankers, 122 answered the question in the negative; 50 reported the rates too high; and

7 failed to make any definite statement. In the 46 counties comprising the western half of the state, bankers were evenly divided in their opinions. With reference to the replies of farmers, 43 expressed satisfaction with present rates; 71 regarded the rates as being too high for profitable farming; and 8 were non-committal. In the western half of the state, 4 out of every 5 farmers expressed complete dissatisfaction with the rate of interest they have to pay.

On the whole, the prevailing sentiment among the farmers for lower interest rates does not appear to be overwhelming except in those counties where agricultural production is ever an uncertain matter and land values exceedingly speculative. In the older sections of the state the farmer is satisfied with the prevailing interest rate because he is assured of average returns on his capital. As a matter of fact, some of these farmers have financial interests which would cause them to regard with disfavor any plan looking toward a permanent reduction in the interest charge. In many of the country banks, for instance, the farmers already constitute the great body of stockholders to whom lower interest rates would mean lower dividends. To another type of farmers, iai... speculators, farming is a transitory occupation, a means of accumulating capital which in later years can be made to provide a city home and an independent income. They borrow because they hope eventually to be lenders. They are satisfied with high rates because they expect to demand them in turn. Finally, farmers as a class attach more importance to the growing of crops than to careful economy in business methods. As one correspondent explains: "It is not so much a question of the rate of interest as of being able to get loans when needed."

A comparison of the short-term rates accorded to farmers and merchants reveals a slight advantage in favor of the latter. According to the reports of 115 bankers the rates paid by farmers and merchants are approximately the same; 6 banks report a higher rate for merchants, and 58 banks a higher rate for farmers. Thus about one third of the banks reporting charge higher rates on farmers' loans, but the difference is very small. Where the farmer pays 8 per cent the merchant is reported as paying 7 to 8 per cent. Loans made to farmers at 10 per cent are made to merchants at 8 to 10 per cent.

In order to compare the farmers' rate on long-term loans with the rate paid by other borrowers, bankers were asked to quote the rate of interest on loans secured by town or city real estate in their respective communities. A comparison of their replies shows that with 156 banks the rate on city real estate is higher than the rate on farm mortgage loans—in amount varying from ½ to 2 per cent; 2 banks report a higher rate on farm loans; 21 banks (located for the most part in western counties where loans are seldom made on town property or farm lands and where 10 per cent is the lowest rate on any kind of security) report the same rate on all mortgage loans.

On long-term loans the farmer clearly has an advantage over other individual borrowers. But the question arises, Would not a lower rate, both for social and economic reasons, be desirable? Bankers spurn the suggestion, maintaining that lower rates would only cause higher land values, land speculation, over-expansion and reckless use of credit, and that the rate of interest should be allowed to adjust itself to the type of security the farmer has to offer.

There is perhaps some truth in these contentions, but the fact remains that our rural credit system offers little encouragement to the young man who aspires to land ownership. In the first place, it fails to make provision for an adequate term of loans. A scheme which provided for a longer term of loans and a reduction of the principal on the amortization plan would make the outlook of the young farmer more promising. In the second place, land values are high; in fact, out of all proportion to the capitalization of the rent at the current rate of interest. Land which yields an annual rent of \$3 per acre frequently sells for more than \$100. In order to become a landowner on borrowed capital one must pay an interest rate of at least 6 per cent and other charges which may increase the actual rate to 7 per cent. With such an unfavorable ratio existing between earnings and expenses the ownership of land is gradually passing out of the hands of the actual cultivators.8

Forces affecting the rate. From the point of view of the banker, farmers themselves are largely responsible for the rate of interest

⁵The following table shows the increase of tenancy in Kansas during the last three decades as reported by the Thirteenth Census, vol. VI, p. 557.

Year																					0	p	or	at	led	by	ten	arm	
1880	* * *	* *	ė. 1	* *		x. y			×		*		 *				* 1	 *		. ,		*	*		1	6.3			
1890									*	 		. ,			 	*	× 5	 *	×					* *	2	8.2			
1900										 , ,		* 1		×	 									* *	3	5.2			
1910												 					 								30	6.8			

they have to pay. One correspondent suggests that the farmer who leaves his machinery in the fence corner eleven months in the year or who mortgages his home to buy an automobile must sooner or later pay the price in his interest rate. Bad farming, wasteful methods, borrowing for unproductive purposes, neglect in the prompt payment of loans, and other similar shortcomings are given as fundamental causes for existing rates.

In recent years the spirit of land speculation has been more instrumental than any other factor in promoting a system of wasteful farming. Higher prices received for farm products since 1900 have caused a phenomenal rise in land values. Ownership of land has become especially desirable, not so much for its immediate income as for the prospect of a further rise in value. Even bankers, merchants, and private investors have contributed to the speculative spirit—purchasing land with idle funds, deriving whatever income it yielded in the hands of incompetent tenants, and awaiting the natural increase in value. This practical certainty of an unearned increment has, in many cases, made farming a pastime and speculation a business. Incidentally it has discouraged lower interest rates.

In western Kansas, land values are speculative chiefly because of the uncertainty of the wheat crop. In several counties fully 90 per cent of the total improved farm acreage is devoted to the production of wheat. When good years follow in succession, settlers are attracted in large numbers and land sells at a high figure. When drought follows drought, land values decline and there is a material diminution in the number of operated farms. The effect of these uncertain conditions is disastrous. Poor crops deplete the supply of local capital and arouse the suspicion of the foreign investor. The uncertainty arising from the possibility of a crop failure is reflected in the current rate of interest.

Notwithstanding the fact of bad farming under a wasteful system, foreign capital has continually sought investment in Kansas farms during the last twenty years. The principal foreign investors are the life insurance companies. In 1913 the Prudential Insurance Company of Newark and the Union Central Life of Cincinnati each had investments of over \$9,000,000 in farm mortgages throughout the eastern half of the state. Other important investors were the Mutual Benefit Life, the Northwestern Mutual, and the Phoenix Mutual. The reports of all companies listing their investments by states show on December 31, 1913, a total invest-

ment in Kansas of approximately \$56,500,000. This amount represents 80 per cent of the total debt as returned by the United States Census for 1910 on Kansas farms operated by owners owning their entire farm. While the data are not exactly comparable, they show, nevertheless, the relative importance of foreign capital in fixing the rate of interest.

Investment of local capital in farm mortgages is adversely affected by the general property tax law which subjects real and personal property to the same kind of taxation. To an investor the tax is extremely annoying. It scales down an interest rate of 6 per cent on a mortgage loan to $4\frac{1}{2}$ per cent. Rather than suffer this loss of income the investor is obliged to invest his capital in foreign enterprises where his personal supervision can seldom be exercised. As a matter of fact, the recent efforts of the state tax commission to enforce rigidly the law in regard to the taxation of personalty has caused such wholesome fear of double taxation among investors that an enormous volume of capital annually seeks investment beyond the state boundaries out of reach of the taxgatherers. The withdrawal of these loanable funds compels the farmer to pay a higher rate of interest than would be necessary under more lenient laws.

Another phase of state legislation which affects the rate of interest on long-term loans is the redemption law, designed to safeguard the mortgagor who has defaulted on interest payment. For a period of eighteen months after foreclosure sale the mortgagor has a right to redeem his obligation and regain title to his fand. During this time the lender is exposed to a loss not only on account of taxes and interest but also on account of the wilful negligence of the occupier in caring for the property. Thus by making the acquisition of property less desirable under foreclosure sale the long-time redemption privilege detracts from the security of a mortgage loan. A shorter period allowed for redemption would virtually lower the interest rate by enabling the borrower to secure larger loans on his property with less risk to the lender.

Finally, there are the exemption laws which add to the lender's risk by making the non-payment of honest debts an easy matter. At present, one may own 160 acres of land, occupied as a homestead, worth perhaps \$32,000, with live-stock, feed, implements, and provisions enough to keep the farm in operation for one year and still be law-proof from the collection of debts. Manifestly the exemption allowed by law is excessive, inequitable, and injur-

ious. It grants a larger exemption to the owner of good land than to the one whose land has little value. It gives rise to recklessness on the part of borrowers in contracting debts and to negligence in prompt payment. It follows that the rate of interest must be high enough to cover the lender's risk and pay for the cost of collection. A reduction of the exemption to a reasonable and uniform amount of property value making the excess subject to execution for the collection of debts would afford the worthy debtor ample protection and at the same time act as a powerful restraint on the injudicious use of credit.

Remedies. Much has been said concerning the possibilities of cooperative credit as a remedial agent for high interest rates and impoverished agriculture, but it is doubtful whether the adaptation of the European credit associations to American conditions would be feasible at the present time. On this point farmers were asked the question: "What percentage of farmers, in your opinion, would be willing to form cooperative credit associations? Such associations would (1) receive deposits, (2) borrow additional funds outside on the combined security of the property of all members, and (3) make loans to members at a rate of interest just high enough to cover expenses." In reply, 36 farmers stated that no one would enter such an association, the chief reason being that no one would want to create a lien on his property for the benefit of others; 52 refused to make any estimate on the ground that they had never heard the subject discussed and were therefore incompetent to judge; 34 made estimates varying from 2 to 100 per cent. Apparently cooperation is little understood. The sentiment favoring cooperative organization is strongest, of course, in western Kansas where farmers would "try anything which offered the prospect of lower rates." On the other hand, those who are opposed to cooperative credit insist that no good farmer would join an association and that therefore the chances for successful organization and supervision would be extremely small.

For the present, at least, there are a number of natural obstacles in the way of successful coöperative credit. In the first place, the frontier stage is not far enough in the past to have allowed the development of a coöperative spirit. The farmer is still a strong individualist. Living a comparatively isolated life, he has become accustomed to looking after his own affairs without the assistance of others; and it is seldom that he will brook their interference.

On account of the continual shifting of the rural population, the character of his neighbors is ever a matter of uncertainty. There is, moreover, no religious or communal bond to overcome the mutual distrust that frequently arises. These conditions militate strongly against the growth of a coöperative spirit. In the second place, a majority of the country banks are already owned by farmers who represent perhaps the best ability in the farming occupation and who would resent actively the formation of competitive organizations in their communities. Finally, farmers are suspicious of coöperative enterprise in all its forms. Partly for this reason coöperation in buying and selling has made little headway. The number of failures has been large. It would seem unwise therefore to advocate the establishment of farmers' coöperative banks until coöperation in its milder and safer forms has secured a permanent footing.

In view of the inability of farmers either through individual initiative or collective action to deal adequately with the rural credit problem the question arises, Could the state, through legislation, enable the farmer to obtain his loans at a lower rate of interest?

Reference has already been made to the possibility of reducing interest rates by a repeal or modification of state laws now prejudicial to the lender. In addition, it might be well to consider the adoption of a land title registration law, otherwise known as Torrens law. Such a law, while not directly affecting the rate of interest, would greatly reduce the cost of borrowing. At present the cost of establishing a title prior to the granting of a loan may make the cost of borrowing prohibitive.

It is questionable whether state legislation should go any further. If the state were to attempt to solve the rural credit problem by making loans directly to farmers, it would be necessary, in providing sufficient funds for this purpose, to issue long-term bonds secured by mortgages on farm lands. In the opinion of the writer, however, this plan of dealing with the situation, while sound in principle, is too comprehensive to be within the purview of state legislation. The problem of giving to agriculture its proper place in the nation's business has become national in scope, therefore the larger program is one for federal rather than state initiative. This would insure the effective application of a common remedy to like conditions. It would be merely a continuation of the government's liberal land policy.

GEORGE E. PUTNAM.

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THE CLAYTON ACT

As indicated in the previous article¹ the tentative bills other than the Railroad Securities and Trade Commission measures were taken in charge by Representative Clayton's Committee on the Judiciary. These former measures constituted the basis of the Clayton act, now a part of the law of the land.²

'This article is the second of two studies of the new trust legislation. The preceding one, "The Trade Commission Act," appeared in the December number of the Review (vol. IV, p. 840). The writer wishes to call attention to an error in the first article which was discovered too late to allow of correction. On page 852 read Whitwell v. Continental Tobacco Co. for United States v. Nelson; and in footnote 32 read 125 Fed. 454 instead of 52 Fed. 646.

²The legislative history of the Clayton act may be sketched as follows:

(Except where otherwise indicated all references in this footnote refer to pages in volume 51 of the Congressional Record. Page numbers alone have therefore been used. It should be noted that these page numbers are those of the Record as it appears from time to time and that they differ from the paging found in the bound volumes ultimately issued. The latter statement applies to the sketch of the legislative history of the Trade Commission act which appeared in the preceding number of the Review. It was only recently that the writer discovered the discrepancy in the two pagings. He did not, therefore, make note of this point in the preceding article.)

On April 14, 1914, Representative Clayton introduced a general bill to supplement existing laws against trusts (H.R. 15657) and the bill was referred to the Committee on the Judiciary of which he was chairman (p. 7244). In this measure there were practically included the tentative bills drawn to cover trade relations, holding companies, and interlocking directorates (cf. text of tentative bills and also Financial Chronicle, vol. 98, p. 1210). On May 6 Mr. Clayton reported the measure with amendments accompanied by a report (no. 627) and both bill and report were placed on the House calendar (p. 8513). In several respects the amended measure differed from that originally offered on April 14. Alterations were made in the section relating to the issue of injunctions. Several clauses were added in the section prohibiting interlocking directorates, among them one providing that the section should not apply to mutual savings banks not having a capital stock represented by shares. The declaration of the earlier bill that nothing in the anti-trust laws should be construed to forbid the existence of labor unions, agricultural associations, etc., was extended by the new measure to include associations of the traffic, operating, accounting or other officers of common carriers for the making of lawful agreements.

On June 5 the bill was considered by the Committee of the Whole House on the State of the Union and passed 277 to 54 (p. 10,745). On June 6, together with the Trade Commission bill (H.R. 15,613), the Clayton bill (H.R. 15,657) was referred to the Senate Committee on Judiciary (p. 10,770). On July 22 Mr. Culberson reported out the bill with amendments accompanied by a report (no. 698) and the bill was placed on the calendar (p. 13,618).

Broadly speaking, the various sections of the Clayton act may be classified under three heads: (1) Those declaring certain acts unlawful and prohibiting them; (2) those designed to enforce

Several changes had been made in the measure as passed by the House on June 5. Easily the most important were the provisions giving to the Trade and Interstate Commerce commissions authority to enforce compliance with those sections prohibiting price discriminations, interlocking directorates, holding corporations, and exclusive and tying arrangements. Almost equally significant was the elimination of the fine and imprisonment penalties which the House measure had provided as punishments for violations of three of these sections, i.e., those directed against price discriminations, holding corporations, and exclusive and tying arrangements. This amended measure was altered by the Senate in a number of respects. That body struck out entirely the provision forbidding price discriminations. It also in the Committee of the Whole eliminated the section prohibiting exclusive and tying arrangements but later adopted a substitute. A new section forbade common carriers, except under certain conditions, from having dealings to the extent of more than \$50,000 a year with certain classes of concerns in which its own officers or agents were interested.

On the last day of August a unanimous consent agreement was secured for a vote on the Clayton bill (pp. 15,795-15,796) and two days later the measure passed the Senate by vote of 46 to 16 (p. 15,970).

In view of the several additions which were made by the Senate and the elimination of many of the clauses of the bill as it had passed the House, a disagreement was a foregone conclusion. On September 4, Representative Webb asked unanimous consent for a disagreement to the Senate's amendments and for a request for a conference. No objection being made, the chair appointed Representatives Webb, Carlin, Floyd of Arkansas, Volstead, and Nelson (p. 16,103). A message having informed the Senate of these facts, the motion of Senator Culberson that the Senate insist on the amendments and that the chair appoint conferees on the part of the Senate was agreed to. The vice-president thereupon appointed Senators Culberson, Overman, Chilton, Clark of Wyoming, and Nelson (p. 16,084).

On September 23 Senator Culberson presented the conference report on the Clayton measure (p. 17,018). But owing to the fact that in certain particulars the report was not sufficiently explicit to give directions to the enrolling clerk he withdrew it upon the following day and submitted a new report (p. 17,066). Several days of debate in the Senate followed, during which the conference report was strenuously attacked by Senator Reed of Missouri because of its elimination of criminal penalties. It was this fact that led him on October 5 to offer a motion to recommit the conference report with instructions to the Senate conferees to insist upon the insertion in the bill of the criminal penalties substantially as these had appeared in the House measure. The motion failed, 35 to 25 (pp. 17,694-17,697), and the Senate by a vote of 35 to 24 thereupon agreed to the report (p. 17,698).

In the House the conference report was presented on September 25 by Mr. Webb (p. 17,171). It met with objections similar to those raised by Mr. Reed in the Senate but was ultimately agreed to on October 8 by a vote of 244 to 54 (pp. 17,890-17,891). On the following day the measure

compliance with the prohibitions of the act; (3) those relating to legal processes, including the issue of injunctions, the prosecution of actions for contempt, etc.

The new law declares:3

A. That it shall be unlawful for any person engaged in commerce to make discriminations in prices between different purchasers of commodities sold for use, consumption, or resale, where the effect of the discrimination may be to substantially lessen competition or tend to the creation of a monopoly.⁴

B. That it shall be unlawful for any person engaged in commerce to lease, sell, or contract for the sale of goods, etc., patented or unpatented, or to fix a price charged therefor, or discount, or rebate, upon such price, conditioned upon the lessee or purchaser thereof, not using or dealing in goods, etc., of competitors of the lessor, or seller, where the effect may be to substantially lessen competition, or tend to create a monopoly.⁵

C. That no corporation shall acquire the whole or any part of the stock or other share capital of another corporation, or two or more corporations, where the effect may be to substantially lessen competition, to restrain commerce, or to tend to create a monopoly.

D. From and after two years from the date of the approval of the

1. No person shall be a director or other officer or employee of more than one bank (etc.) organized under the laws of the United States if anyone of them is above a certain size; and no private banker, or person who is director in any bank or trust company organized under

was reported from the Committee on Enrolled Bills and was signed by the Speaker of the House and the Vice-president (pp. 17,955, 17,980). The bill was presented to the President on October 10 and was approved by him on October 16.

^a Prohibitions. On account of the length of these they have not been quoted in full, but only their content given. All references except where otherwise indicated are to sections of the bill as reported by the conference committee.

*Sec. 2. Differences of prices, due to grade, quality or quantity, or which make due allowance for difference in cost of selling or transportation, or made in good faith to meet competition are specifically excepted.

6 Sec. 3.

"Sec. 7. Specifically excepted from the operation of this section are corporations purchasing such stock solely for investment and not using it to substantially lessen competition; subsidiary corporations formed for the carrying on of lawful business or natural and legitimate branches thereof, where the effect of such formation is not to substantially lessen competition; common carriers aiding in construction of branch lines or acquiring or owning the stock of such branches, or of a branch line constructed by an independent company where there is not substantial competition between branch and main line companies; common carriers extending lines by the acquisition of the stock of other carriers where there is no substantial competition between the two.

the laws of any state, and above a certain size, shall be eligible as a director of any bank or banking association incorporated or operating under the laws of the United States.

2. No bank (etc.) organized or operating under the laws of the United States in any city, incorporated town or village, of more than 200,000 inhabitants shall have as director or officer or employee any private banker or any director or any other officer or employee of any other bank (etc.) located in the same place.

3. No person shall be a director at the same time in any two or more corporations (other than banks, etc., and common carriers) engaged in interstate commerce, any one of which has capital, surplus, and undivided profits aggregating more than \$1,000,000, if such corporations have been competitors so that the elimination of competition between them will constitute a violation of any of the provisions of the anti-trust laws.⁷

With regard to some at least of the principal prohibitions contained in the Clayton bill, the same argument may be made as was suggested against the unfair competition section of the Trade Commission bill, i.e., that such provisions are unnecessary since the Sherman act embraces them in the same way, as it includes unfair methods of competition. Compare for example, the price discrimination section of the Clayton bill with the statement of the court in its decree against the General Electric Co.:

The General Electric Company and the other defendants are each enjoined and restrained from offering or making more favorable prices

⁷Sec. 8. Under Sec. 10 common carriers are forbidden after two years to have dealings in securities or supplies, etc., or to make or to have construction or maintenance contracts to the amount of more than \$50,000 in the aggregate in any one year with another organization, when the common carrier has on its board of directors or as its president, manager, or purchasing or selling officer, or agent in the particular transaction, any person who is at the same time, a similar officer of or has any substantial interest in the organization from which the purchases are made, unless such dealings, etc., shall be with the most favorable bidder, who is to be ascertained by competitive bidding. Severe penalties are provided for the violation of this section. Such an interlocking between the officers or agents of a railroad and a supplying concern might result in other supplying concerns being unable to compete for the business of the road in question. In this way a relatively inefficient organization might be perpetuated, and a relatively efficient one prevented from attaining that development to which its efficiency entitles it.

In such circumstances we should clearly have a case of economically unfair competition which presumably at least is prohibited by the Trade Commission act. Although in consequence the provision under discussion may seem to be an instance of duplication, it is hardly that in reality. By making all except minor contracts open to competitive bidding it attempts to eradicate a situation out of which unfair competition might arise. It would seem therefore to be both a sound and a wise provision.

or terms of sale for incandescent electric lamps to the customers of any rival manufacturer or manufacturers than it at the same time offers or makes to its established trade, where the purpose is to drive out of business such rival manufacturer or manufacturers, or otherwise unlawfully to restrain the trade and commerce of the United States in incandescent electric lamps; provided that no defendant is enjoined or restrained from making any prices for incandescent electric lamps to meet, or to compete with, prices previously made by any other defendant, or by any rival manufacturer.

The wording of section 3 of the Clayton act (B above), I think, clearly prohibits exclusive purchasing and selling, as well as tying arrangements. This section, therefore, has a twofold aspect. Regarding exclusive selling, a United States court had this to say in the recently decided Thread case:

The defendant corporations, together with their directors, officers, managers, agents, and employers . . . be and they hereby are jointly and severally enjoined . . . (i) From soliciting or exacting from wholesale or retail dealers or jobbers or from customers of competitors in the United States any agreement not to handle or to cease handling the brands of competitors; or from refusing to deal with, or discriminating against . . . those who handle the goods of competitors; or from canvassing the retail trade of any dealer or jobber and thereupon offering the orders thus obtained to such dealer or jobber upon condition that he shall cease to buy thread from a competitor of the defendants.

Similarly a court decreed in the Electric Lamp case, regarding exclusive purchasing:

That the General Electric Company and the other above-named Lamp Manufacturing Defendants, and each of them, their officers. agents and servants, are perpetually enjoined and restrained from making or enforcing any contracts, arrangements, agreements or requirements with dealers, jobbers and consumers, who buy from the said defendants either tantalum filament, tungsten filament, metallized carbon filament or ordinary carbon filament lamps, or any of them, by which such dealers, jobbers and consumers are compelled to purchase all their ordinary carbon filament lamps from said defendants as a condition to obtaining such other types of lamps, or any of them, or by which dealers, jobbers and consumers are compelled to purchase any one or more of the above-mentioned types of lamps; . . . as a condition to the purchase . . . of any other or all of said types of lamps; and the said General Electric Company and . . . Defendants aforesaid are perpetually enjoined and restrained from discriminating against any dealer, jobber or consumer desiring to purchase tantalum. tungsten or metallized carbon filament lamps because of the fact that

^{*}Italics are the writer's. U. S. v. General Electric Co., Final Decree, U.S.C.C. for the Northern District of Ohio, Eastern Division, p. 9.

^{*}U. S. v. American Thread Co., Final Decree, U.S.D.C. for the District of New Jersey, p. 9.

such dealer, jobber or consumer purchases ordinary carbon filament lamps from others, and . . . from discriminating against any dealer, jobber or consumer desiring to purchase any one or more of the abovementioned types of lamps because of the fact that such dealer, jobber or consumer purchases any other of said lamps from other manufacturers or dealers. 10

Again, in view of the Northern Securities, the Oil and the Tobacco decisions one many not unreasonably contend that the provisions of the Sherman act are sufficiently broad to include acquisitions on the part of one corporation engaged in commerce of the stock of one or more others where in the words of the Clayton act "the effect of such acquisition may be to substantially lessen competition" between them "or to restrain such commerce · . . or tend to create a monopoly of any line of commerce." ¹¹

It would therefore appear possible for one to question whether very positive advantages have been secured by the provisions of the new law prohibiting price discriminations, exclusive purchasing and selling arrangements, and holding corporations. Would not the courts in any case coming before them have construed the Sherman act to embrace all these situations provided there was any substantial lessening of competition, restraint of trade, or tendency to create a monopoly?¹²

From the standpoint of the writer, price discriminations and exclusive and tying arrangements must be regarded as methods of unfair competition.¹³ Since the Trade Commission act expressly declared unfair methods of competition to be unlawful, it follows that there is duplication involved to a considerable extent in declaring specific methods unlawful.¹⁴

In view, however, of the importance of the elimination of methods

¹⁰ U. S. v. General Electric Co., et al., Decree, cit. supra, pp. 7-8.

¹¹ Sec. 7.

[&]quot;It is to be noted, however, that the acts now under discussion are prohibited not where the effect "is" to substantially lessen competition (etc.), but where the effect "may be" to do so. To the writer "may be" would seem to imply that the acts enumerated are prohibited if there is a possibility that competition will thereby be substantially lessened (etc.). If this view is a correct one, the new law will probably reach many acts to which the Sherman act could not possibly be construed to extend.

¹⁸ Stevens, "Unfair Competition," Pol. Sci. Quart., vol. XXIX, pp. 282, 460.
See especially sections I, IV, V, and VI.

[&]quot;It is but fair to say that the debates on the conference report show that some senators and congressmen recognized this fact. Cf. Senators Borah and Culberson in the original numbers of the Cong. Rec., vol. 51, p. 17,297; and Representative Webb, p. 17,823.

of unfair competition, it seems highly probable that, if little has been gained by this duplication, at least no harm has been done. So far as tying arrangements are concerned, their prohibition by statute was necessary. As was pointed out by Senator Walsh, the Trade Commission

could not declare the tying contract unlawful or assert that the use of it in connection with the sale or lease of or license to use a patented article constituted unfair competition, because the Supreme Court of the United States had approved of such a contract in the case of Henry against Dick . . . as being strictly within the rights of the patentee under the law as it stood. 15

Interlocking directorates have never been, so far as the writer knows, declared unlawful by any specific decision of the courts, although some dissolution plans have temporarily forbidden such arrangements as to the separate units into which an illegal organization has been split.¹⁶

It would be too broad a generalization to assert that the interlocking of directors constitutes unfair competition. But though not unfair, per se, it is none the less true that such an arrangement may result in unfairness through the fact that an interlocked concern may thus be enabled to purchase at preferential rates as compared with its competitors.¹⁷ Although this fact alone would appear to constitute a sufficient economic reason for the prohibition of interlocking directors, would not any sound interpretation of the unfair competition section of the Trade Commission act extend to all cases of this character? Is not a needless duplication, therefore, also involved in this case?

Both these questions may, I think, be answered in the affirmative. Yet it should not be forgotten that many preferential contracts would probably never have been made but for the existence of interlocking directors. From this standpoint the prohibition appears essentially sound. It goes to the root of the matter by attempting to eradicate a class of conditions which has undoubtedly been responsible for certain preferential contracts. At the

¹⁵ Ibid., p. 17,689.

¹⁶ During a period of five years, "None of said corporations shall have any officer or director who is also an officer or director in any other of said corporations." U. S. v. E. I. DuPont de Nemours & Co. and others. Opinion of the Court and Final Decree, U.S.D.C. for the District of Delaware, p. 12. A similar provision will be found in the Tobacco Dissolution plan.

¹⁷Cf. op. cit. Stevens, sec. VI, p. 462, and also U. S. v. American Can Co. Original Petition, U.S.D.C. for the District of Maryland, pp. 18-19.

same time is is scarcely necessary to point out that interlocking directors are not a sine qua non for securing either preferential contracts or centralization of control in the management of the affairs of certain large corporations. Dummy directors have existed in the past and will continue to exist. Through brothers, sons, and more distant relatives and also through friends, the same ends may and not infrequently will be obtained as have been secured in the past through the medium of interlocking directors.

Enforcement. Two methods of treating violations of the principal prohibitions¹⁸ of the Clayton act are provided. Section 11 declares that the authority to enforce compliance with the sections containing these prohibitions

is hereby vested in the Interstate Commerce Commission where applicable to common carriers, in the Federal Reserve Board where applicable to banks, banking associations, and trust companies; and in the Federal Trade Commission where applicable to all other character of commerce.¹⁹

The manner of the exercise of the authority thus given is in all respects identical with the procedure of the Trade Commission in preventing unfair competition. And since the latter has been fully outlined in the preceding article²⁰ it need not be repeated here.

As indicated above, the courts have construed the Sherman act to embrace price discriminations, exclusive arrangements, and holding corporations. It might therefore be contended, were the Trade Commission given the sole power of enforcing compliance with these prohibitions, that this body in so doing is merely the successor to functions that were formerly exercised by the district and circuit courts of the United States; and consequently that nothing has been gained by vesting these powers in the Trade Commission. A similar point was made, it will be recalled, regarding the authority of the Trade Commission over unfair methods of competition.

In general, arguments similar to those which the writer indicated in favor of vesting in the Trade Commission the power over unfair competition, may also be advanced to support the authority given to this body of enforcing compliance with the prohibitions of price

¹⁸ Price discriminations, "tieing" and exclusive arrangements, holding corporations and interlocking directorates.

[&]quot;Sec. 11. The writer has omitted from the remainder of the discussion any consideration of this section as applied to banks and common carriers.

MAMERICAN ECONOMIC REVIEW, vol. IV (Dec., 1914), pp. 850-851.

discriminations, exclusive and tying arrangements, interlocking directorates, and holding corporations, i.e.:

(a) That there is some administrative advantage in having these prohibitions handled through the commission with direct and final appeal²¹ to the Circuit Court of Appeals, etc., instead of leaving enforcement to the ordinary mechanism of the Department of Justice and the courts.

(b) That the commission ought and probably will be able to discover and prohibit infractions of the principal acts made unlawful by the Clayton measure, in a much more thoroughgoing fashion than was possible through the Department of Justice and the courts, because of the broader powers of investigation which the commission possesses and the larger force of investigators which it may be assumed that it will have at its disposal.

Apparently, then, the section under discussion should considerably enlarge and increase the administrative authority of the Trade This would still be true even though it were assumed that the enforcement of the prohibitions of local price cutting and exclusive and tying arrangements were embraced by the unfair competition section of the Trade Commission bill. In such case the commission would still exercise administrative authority over both holding corporations and interlocking directorates. Its powers, therefore, would appear to be considerably greater than those originally granted by the measure creating it. But whether as a matter of actual fact, the Clayton law has measurably extended the powers of the Trade Commission must, I think, remain somewhat problematical. The reason for this is found in the fact that the Trade Commission is not given sole authority to enforce compliance with the principal prohibitions of the Clayton act. Section 15 of the new law provides, without making any exception of the enforcement of the provisions entrusted to the Trade Commission under section 11:22

That the several district courts of the United States are hereby invested with jurisdiction to prevent and restrain violations of this Act, and it shall be the duty of the several district attorneys of the United States, in their respective districts, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations. Such proceedings may be by way of petition setting forth the case and praying that such violation shall be enjoined or otherwise prohibited.

¹¹ Except in case of a writ of certiorari from the Supreme Court.

²² And also to the Interstate Commerce Commission in the case of common carriers and the Federal Reserve Board in the case of banks.

It appears, therefore, that both an administrative and a judicial authority are provided for enforcing compliance with the prohibitions under discussion. That it was intended to give the district courts and Trade Commission concurrent jurisdiction and not to vest this authority solely in the commission is undoubtedly true,23 but what advantages this division of jurisdiction will afford, it is a little difficult to comprehend. True, there might be violations of the act other than those of which the Trade Commission is given jurisdiction, but the latter cases might easily have been excepted from the operation of section 15, thereby securing such advantages as ought, in the estimation of the writer, to accrue from the arrangements provided in section 11. Why, after providing through the Trade Commission a complete and on the whole commendable mechanism for enforcing compliance with these sections, was it regarded as either necessary or advantageous to provide another means of enforcement? The only possible ground which the writer is able to suggest is that it was thought that enforcement might perhaps be facilitated by having both the commission and the Department of Justice on the watch for violations. On the other hand, is not this possible advantage of concurrent jurisdiction more than offset? The effect of section 11, taken by itself, was to considerably strengthen and increase the administrative power of the Trade Commission by giving it authority over the enforcement of the principal prohibitions of the Clayton act. This certainly seems desirable since we are to have a Trade Commission. But it is possible to escape the conclusion that this increased administrative authority is and will be, at least to a considerable extent, nullified by the provisions of section 15 investing the judicial branch of the government with a concurrent jurisdiction in that enforcement?24

²³ Cf. statements of Representative Webb of the conference committee in the original numbers of Cong. Rec., vol 51, p. 17,824. The writer also has a letter from a member of the conference committee stating that it was intended to give concurrent jurisdiction.

²⁴ It should, of course, be pointed out that only the actual results of the operation of these two sections can determine the question. It may happen that the complaints of various parties will be made in practically all cases to the Trade Commission. A fact which would seem to militate against this result is that under the Sherman act it has for years been customary for complaints to be made to the Department of Justice or its officials. It seems not unreasonable to assume, therefore, that there is some likelihood that such will continue to be the practice, at least until people become more familiar with the Trade Commission as an enforcing authority. On the other hand it is, of course, true, since the initiation of proceedings in such

A fact which points strongly to an affirmative answer to this question is the somewhat peculiar and, in the estimation of the writer, unfortunate situation in the matter of appeal, which seems to have been created by this concurrent provision. As we have seen, the Circuit Court of Appeals, under section 11, has final and exclusive jurisdiction25 of orders of the Trade Commission relating to price discrimination, exclusive and tving arrangements. holding corporations and interlocking directorates. If, however, cases involving these points come before the district courts, under section 15 they go directly from these courts to the Supreme Court upon appeal. This situation arises through the following facts. The expediting act of February 11, 1903, provided that in every equity proceeding brought in the circuit courts by the United States as complainant, under the Sherman act, the Interstate Commerce act "or any other acts having a like purpose that hereafter may be enacted," an appeal would lie only to the Supreme Court.26 The act of March 3, 1911, which abolished the circuit courts, declared that "Whenever, in any law not embraced within this act, any reference is made to . . . the circuit courts, such reference shall . . . be deemed and held to refer to . . . the district courts."27

It therefore appears, so far as the writer is able to see, that both the Supreme Court and the Circuit Court of Appeals have the power to render final decisions upon the principal prohibitions of the Clayton act, and that the one or the other will render them according as the particular case is brought through the District Courts or the Trade Commission. Is it then to be expected that an order of the Trade Commission even though backed by the decision of the Circuit Court of Appeals will command respect until or unless the same point has arisen in another case in the courts and the Supeme Court has rendered a decision thereon affirming that of the Circuit Court of Appeals.

cases must rest with the Department of Justice, that the instructions of the President to the Attorney General might result in but few cases being brought through the district courts and in the complaining parties being referred to the Trade Commission. Other factors may also have considerable effect, such as the amounts of money appropriated to the Department of Justice for enforcing the laws, etc.

25 Except in case of certiorari from the Supreme Court.

26 32 Stat. Law 823. Italics are the writer's. The act of 1910 amending this act did not alter this provision,

27 Act of March 3, 1911; in effect Jan. 1, 1912.

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It also follows, I think, on account of section 15, that so far as sections of the act deal with methods of competition which may be regarded as unfair, the jurisdiction of the Trade Commission over this matter is a concurrent one, and not, as might be inferred from the Trade Commission bill, an exclusive one. The same thing obviously is also true of the jurisdiction of the Circuit Court of Appeals over the orders of the Trade Commission relating to the same subject.

The Clayton measure as passed is practically free from criminal penalties.²⁸ Hence, enforcement of its prohibitions rests principally upon contempt proceedings for disobedience to the decrees of the courts²⁹ as is the case with the enforcement of the unfair competition section of the Trade Commission act. Except so far as unfair competition is concerned, the writer is not strongly impressed with the need of other penalties than those afforded by contempt procedure.

Other provisions of the Clayton act may also have some effect upon its enforcement. Thus:

A final judgment or decree hereafter rendered in any criminal prosecution . . . or proceeding in equity brought by and on behalf of the United States under the anti-trust laws to the effect that a defendant has violated said laws shall be *prima facie* evidence against such defendant in any suit or proceeding brought by any other party against such defendant . . . as to all matters respecting which said judgment or decree would be an estoppel as between the parties thereto. 30

This provision is further strengthened by a clause in the same section providing (whenever the United States begins action) for the suspension during the pendency thereof of the running of the statute of limitations in respect to private rights of action based upon the complaint in the said action. The original House measure had provided that a judgment in favor of the United States should be "conclusive evidence of the same facts" and "the same questions of law in favor of any other party." Since this clause would seem to be of questionable constitutionality, it is

²⁸ The House measure provided fines and imprisonment or both as penalties for price discriminations, holding companies, interlocking directorates, and exclusive and tying arrangements. All these penalties, however, were eliminated either by the Senate or the conference committee.

[&]quot;Unless the criminal clauses of the Sherman act were invoked. This could, of course, be done in every case where a contract, combination, or conspiracy in restraint of trade or monopolization, etc., could be shown.

[&]quot;Sec. 5. Certain exceptions are made in the case of pending suits.

^a Sec. 6 of the Clayton bill as it passed the House.

likely that the change to the provisions of the conference measure mentioned above was a wise one, 32

Section 14 provides that the violation of the penal provisions of the anti-trust acts by a corporation is to be deemed also that of the directors and others authorizing the act, and provides a fine of \$5000 or imprisonment not exceeding one year, or both. That this personal guilt section will have any appreciable effect upon the enforcement of the law is rather doubtful. The punishment is no more severe than that provided by the criminal clause of the Sherman act. Over and over again individuals have been proceeded against criminally under that act, and have been convicted and sentenced by the courts. Since the Sherman act still remains in force it seems doubtful if this provision was particularly necessary, or if it will have important results.

Section 4 permits the recovery of threefold damages for injury by reason of anything forbidden in the anti-trust laws. This section is merely a reënactment of section 7 of the Sherman act, but applies to all the anti-trust laws instead of merely to the Sherman act as was, of course, the case with the last-mentioned section. An additional protection, which is afforded to the individual by the new law is found in the provision:

That any person, firm, corporation, or association shall be entitled to sue for and have injunctive relief, in any court of the United States having jurisdiction over the parties, against threatened loss or damage by a violation of the anti-trust laws . . . when and under the same conditions and principles as injunctive relief . . . is granted by courts of equity . . . 33

Most people will be inclined, I think, to pass a favorable judgment upon these provisions. In enabling the individual to better protect himself, they may and very probably will tend to decrease the number of violations of the anti-trust laws.

A final point regarding the enforcement of trust legislation in general should be noted. It would seem likely that the omission of practically all criminal penalties from the new laws will tend to result in their being enforced rather by civil procedure than by criminal process. While it is true that the Sherman act remains in force, the new legislation so clearly indicates civil process as the remedy to be pursued that it seems scarcely likely that violations of the new laws will be prosecuted criminally³⁴ even though they at

²³ These were similar to the provisions substituted by the Senate for the original House provisions.

⁸³ Sec. 16.

^{**} Except as to the enforcement of sections 9 and 10 which relate to common carriers.

the same time constitute violations of the act of 1890. May there not also be a tendency, partly as a result of this situation, to prosecute civilly rather than criminally such violations of the Sherman act, if any, as could not be regarded as coming within the scope of the provisions of the new legislation? It seems highly probable that the new laws mark a turning point in the attitude toward trusts; that criminal penalties are no longer to be relied upon for the enforcement of trust legislation, but that in the future this is to be handled entirely through civil suits in the courts or else by an administrative body, the Trade Commission. This in turn appears to point to the ultimate result that the control of trusts will be vested entirely in an administrative board.

Procedural and other sections. The sections of the act that have not already been discussed relate to judicial processes, procedure, etc. Consideration of these provisions will be omitted because of their relative unimportance in trust regulation and also in order not to expand unduly this article. Their content, however, may be briefly summarized: Suits under the anti-trust laws against a corporation may be brought in any district where the corporation may be found, 35 and, in the case of suits brought by the United States, subpoenas shall run to districts other than those where the suit is instituted.36 Sections 17 to 20, inclusive, deal with injunctions, the methods and conditions of issue, etc. These sections prohibit their use in labor disputes growing out of the terms and conditions of employment, unless necessary to prevent irreparable injury to property rights for which there is no adequate remedy at law. They also forbid their use in such disputes against strikes and picketing and boycotting, which are specifically declared not to be violations of any law of the United States. Sections 21 to 25 relate to contempts, contempt procedure, and punishments in suits other than those brought by or on behalf of the United States. Section 6 declares that the labor of a human being is not a commodity or an article of commerce and excepts from operation of the anti-trust laws, non-stock labor, agricultural, and horticultural associations not conducted for profit.

The following conclusions with reference to the new trust legislation may be drawn from the discussion presented in the present and preceding article.

^{*} Sec. 12.

[&]quot;Sec. 13. Under certain conditions.

 The Trade Commission is a body with wide powers of investigation and a limited administrative authority.

2. Several of its investigatory powers have to a noticeable degree been previously exercised by either the Bureau of Corporations or the Department of Justice. But on the whole the investigatory authority of the commission is considerably greater than that possessed in the past by either or both of these other bodies.

3. The commission is given the powers of making recommendations to the Attorney General for the readjustment of the business of corporations violating the anti-trust acts and also of ascertaining and reporting appropriate decrees in equity suits brought by or under the Attorney General. But the exercise of these functions depends in the first case upon the application of the Attorney General and in the second case upon the reference of the suit by the courts to the commission. No such discretionary powers should have been given to either the Attorney General or the courts, but both these acts should have been made mandatory in all cases involving readjustments or decrees. In addition it should have been made mandatory upon the Attorney General to accept such recommendations as the commission might make for effecting the readjustment of any business. Nothing would have been lost by making these requirements, and the dignity and importance of the commission would have been increased.

4. The Trade Commission act gave the commission a most important administrative authority in providing that this body should prevent unfair methods of competition. The Clayton measure further extended this authority in giving it jurisdiction to enforce the prohibitions against holding corporations and interlocking directorates. It also gave it jurisdiction to prevent price discriminations and exclusive and tying arrangements. authority to prevent price discriminations and exclusive arrangements, however, does not properly constitute any increase in the commission's powers since any sound construction of the unfair competition section of the Trade Commission act could scarcely fail to include these methods. While tying arrangements are also unfair it is at least doubtful, in view of the Dick decision, whether it would have been possible for the Trade Commission to have prevented them without the authority thus conferred. This provision, therefore, may be regarded as a wise precautionary

5. The enforcement of the principal prohibitions of the Clayton

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act and of the unfair competition section of the Trade Commission act is entrusted to the commission by an admirable method of procedure. The commission conducts a hearing and makes an order against a practice, a review of which may be had by the party against whom it is made in the Circuit Court of Appeals. If the order is not obeyed the commission applies to the same court for enforcement, and the jurisdiction of the court in both cases is exclusive and final.³⁷

6. Unfortunately a concurrent jurisdiction has been vested in the district courts to enforce the prohibitions against price discriminations, exclusive and tying arrangements, holding corporations and interlocking directorates. It is extremely doubtful if this will serve any useful purpose. At the same time it is possible, if not probable, that it will affect adversely the prestige of the commission. It is also unfortunate in providing two different courts of final review upon these practices, i.e.: the Circuit Court of Appeals when the Trade Commission makes orders against these practices; the Supreme Court when a district court enjoins them.

7. The new laws rely primarily upon contempt proceedings and the penalties therefor in the matter of enforcing their prohibitions. The sufficiency of such arrangements must, I think, depend largely upon one's personal estimate. Sherman act experience indicates that the courts have been inclined in imposing sentence to take a very tolerant view of violations of that measure. If the same attitude is taken in imposing sentences for contempts of court in cases arising under the new laws, it may certainly be doubted if these arrangements are adequate.

8. The elimination of criminal penalties from several sections of the Clayton act and the lack of any such provisions as punishment for unfair methods of competition clearly point to civil rather than criminal procedure as the remedy to be invoked in cases of violations of the principal prohibitions of the new legislation. This again, coupled with the fact that the new laws provide for a Trade Commission with jurisdiction over their important prohibitions, points to a policy of administrative regulation of the trusts. This, I believe, is still true in spite of the concurrent jurisdiction provided for in Section 15 of the Clayton act. This section might readily be construed as merely indicating a reluctance to accept fully the principle of administrative regulation. Ulti-

[&]quot;Subject to the exceptions stated under 6 below.

mately, unless the Trade Commission is abolished either directly or indirectly, this concurrent jurisdiction will probably be abolished or else rendered nugatory through the non-action of the officers of the Department of Justice,

9. The powers given to the Trade Commission of classifying corporations and prescribing the form of reports are pregnant with possibilities. Through these powers it would appear possible for the Trade Commission to determine with some correctness the relative economic efficiency of competition on the one hand and combination and monopoly on the other. Even if no such broad determination can be arrived at for industry in general we ought at least to be able to learn in what types and kinds of business the one or the other principle is the more efficient. In this way light will be shed upon the soundness of such measures as we have already taken for trust regulation and of those which we may take in the future.

10. The provisions of the new legislation in the direction of enabling individuals to better protect themselves against loss or damage by reason of violations or threatened violations of the anti-trust acts are commendable as is also the reënactment, now applied to violations of any of the anti-trust acts, of the three-fold damage clause of the Sherman act.

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REVIEWS AND NEW BOOKS

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General Works, Theory and Its History

Die Lohntheorien von Ad. Smith, Ricardo, J. St. Mill und Marx.
By Ferdinand von Degenfeld-Schonburg. Staats- und sozialwissenschaftliche Forschungen, 173. (Leipzig: Duncker and Humblot. 1914. Pp. viii, 106. 3 M.)

The interpretation and criticism accompanying this exposition of well-known theories offers nothing that is original, but the study may be of some value to foreign students, unfamiliar with the writings of the early English economists. For such readers, it may not be superfluous to stress the fact that Smith, Ricardo, and Mill were well aware that man is animated by other motives than self-interest and sexual desire. To be sure, the writer thinks that in so far as Adam Smith wanted to present a picture of real life, he is subject to criticism for an overemphasis of the economic motive. But such a criticism does not lie against Ricardo and Mill, who were consciously abstract. The latter, however, have not deduced from a postulated self-interest, all possible consequences of economic action. Practically speaking, they have made only such deductions as depend upon the assumption of competition.

It is, perhaps, worth noting that Ricardo's theory of wages is presented as a cost-of-production theory—only incidentally, at most, as a wage-fund theory. The discussion of the wage-fund theory as expounded by Mill is quite elementary, but it is followed by a more searching analysis of the Marxian doctrine. The writer strongly emphasizes the essential difference between the position of Marx and that of the supporters of the wage-fund theory. When Marx explains how overproduction of capital is accompanied by a more or less great overpopulation, he demonstrates clearly in what opposition he stands to the wage-fund theorists.

Throughout the study an attempt has been made to interpret quite dispassionately the various theories discussed, and to reconcile ambiguities and contradictions, whenever possible, instead of exaggerating them. The result is a painstaking though not very suggestive piece of work.

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- The introductory matter has been rewritten. Chapters have been added on the Control of Trusts, Labor Legislation, and Labor Insurance, and the chapters on money and credit have been compressed.
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Economic History and Geography

Colonial Trade of Maryland 1689-1715. By Margaret Shove Morriss. Johns Hopkins University Studies in Historical and Political Science, Series XXXII, No. 3. (Baltimore: The Johns Hopkins Press. 1914. Pp. viii, 157. \$1.00.)

The author confines her description of Maryland's trade to the twenty-five years of royal control in the colony. "The attempt has been made to indicate its value to Great Britain: (1) as a source for the supply of raw material, that is, tobacco, which had to be shipped directly to England; (2) as a market for British manufactures and foreign goods through Great Britain as an entrepôt; (3) as the terminus of a line of trade which employed a large number of English ships and sailors." The study is based upon a careful use of the Archives of Maryland and the Colonial Office Papers in the Public Record Office. Of especial value are the summaries of the Naval Office Lists of shipping into and out of Maryland. The conclusion (pp. 114-115) that there was considerable ship-building in Maryland at the end of the seventeenth century is a contribution to our knowledge of the period. In other respects Miss Morriss supplies much statistical matter to elucidate and confirm our understanding of the commercial life of a plantation colony.

Maryland's staple, tobacco, was annually exported to England to the amount of about 25,000 hogsheads. An average of 320 hogsheads was shipped to other colonies. Methods of marketing, prices, the fleet system, intercolonial trade, and revenues from tobacco are satisfactorily treated. Colonial currency and bills of exchange are but briefly considered owing to scarcity of material. The production of naval stores in Maryland was more or less of a failure owing to the predominance of tobacco culture. But pipe and barrel staves were exported to some extent after 1700. Efforts to induce the colonists to export furs, fish, and food-stuffs failed, and by 1700 the government did everything in its power to encourage the growth of tobacco.

Imports of manufactures into Maryland amounted to less than exports. The varieties of goods imported are described from the Customs House Accounts, Ledgers of Imports and Exports, and reveal an interesting side-light on social life. The colonists would not manufacture unless driven to it by necessity; they made some homespun cloth and there were coopers and carpenters but scarcely any other mechanics. The number of white servants

in Maryland in 1708 was about 3000, and from 600 to 750 were imported each year. The annual importation of slaves was about 500.

There was some intercolonial trade with New England, Pennsylvania, and New York for food-stuffs, horses, rum, sugar, and fish. But the amount of provisions imported was small, as Maryland was nearly self-supporting. This forms a striking contrast to the almost complete dependence of the West Indian settlements upon Northern supplies. Little evidence of illicit trade could be found, and piracy or connection with pirates cannot be traced in the records of the colony. The appendices contain statistics for Maryland's trade in timber, pitch, tar, turpentine, and imported English and foreign manufactures.

Monographs of this character on colonial trade and others upon internal industrial development are hastening the time when it will be possible to write the economic and social history of America.

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Burgage Tenure in Mediaeval England. By Morley DE Wolf HEMMEON. Harvard Historical Studies, XX. (Cambridge: Harvard University Press. 1914. Pp. viii, 234. \$2.00.) In what case were medieval townsfolk with reference to their tenure? An answer for Germany has been essayed by various students, beginning with Arnold in his Geschichte des Eigentums in den deutschen Städten (1861). On the Low Countries there is chiefly Des Marez, in Etude sur la Propriété Foncière dans les Villes du Moyen-Age, et Spécialement en Flandre (1898). On France came, in 1880, Curie Seimbres, Essai sur les . . . Bastides, with matter touching the southwest in the thirteenth and fourteenth centuries; and lately two works relating to Normandy, and quite particularly to urban tenure: Génestal, La Tenure en Bourgage (1900) and Legras, Le Bourgage de Caen (1911). With reference to England the most to be had thus far has been found here and there in Pollock and Maitland, History of English Law, Mr. Maitland's Township and Borough, and Miss Bateson's Borough Customs and The Laws of Bretevil. Dr. Hemmeon now offers on the English side of the problem a detailed study, prepared first as a doctoral thesis under the guidance of the late Professor Charles Gross.

This study is not only limited to burgage tenure. Its author

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regards most of the discussion that has been carried on concerning the origin of urban tenure as "profitless ploughing of desert sands." "With such discussion this essay will have nothing to do except in the conclusion," and there but very briefly. "The aim will be a specific description of urban tenure in mediaeval England, avoiding speculation as to its origin, and dealing only with the facts as they are found." With this aim Dr. Hemmeonhas sought out, among printed materials, various sorts of sources, but chiefly borough charters and customals and records pertinent to transfer or descent of realty; he has read and sifted these sources with acumen; arranged the data in a formal, topical fashion; made advantageous comparisons with the continent; and drawn conclusions which for the most part seem safely backed.

In successive chapters are treated: the incidents of burgage tenure, in comparison with prevailing feudal tenure; purely economic phases of the tenure, such as the amounts and incidence of the original or quit-rents paid by each messuage or burgage to the lord of the borough, and rents and prices of realty in the boroughs; the burgess's power to divide, sell, or devise his tenement; the firma burgi, the witness of Domesday on the age and source of the tenure, weaknesses Dr. Hemmeon charges-in a manner none too generous, be it said-in Miss Bateson's idea as to the role in England of the laws of Breteuil, and the resemblances and differences between burgage in England and urban tenure in Normandy, the Low Countries, and Germany; and in an appendix is a fuller treatment on Germany. One position taken is "that the development of feudalism in England was antedated by a system of land-holding in the boroughs which later was called the burgage tenure" (p. 9 and conclusion), and that burgage tenure, developing thus independently, should not be regarded as a sort of socage—as has been the custom—but as a distinct kind of tenure. The point set out with most emphasis is the mobility of realty held by burgage. There were indeed restrictions in the boroughs, to a greater degree than has been thought; yet in comparison with the land law of the country, freedom of sale and of devise "was, perhaps, the most important feature of the tenure" (p. 10). "Fluid as realty in the German cities might be, England was eminently the land of free sale, and preëminently the land of free devise" (p. 208). On these as on other points much of the substance of the book is reflected conveniently in a definition of burgage (given, curiously, near the outset, p. 5): "Burgage ten-

E. W. Dow.

ure then may be defined as a form of free tenure peculiar to boroughs, where a tenement so held might be alienated by gift, sale, or devise to a degree regulated only by the custom of the borough, unburdened by the incidents of feudalism or villeinage, divisible at pleasure, whose obligations began and ended in the payment of a nominal quit-rent usually to an elected officer of the borough"; and after the earlier period of burghal history most tenements did not even pay quit-rents.

The chief merit of the work is its extension of detail upon the subject. Some of the points made will very likely be debated further, for instance the relation of burgage and socage, and the short-comings of Miss Bateson's studies. But on all the matters treated the work compels consideration, and usually assent.

University of Michigan.

Studies in Taxation under John and Henry III. By Sydney Knox Mitchell. (New Haven: Yale University Press. 1914. Pp. xiii, 407. \$2.00.)

A substantial contribution to the early history of public finance is made in this work. Its period is the transition from the feudal system of miscellaneous dues based on the services and obligations of vassals to a national system of taxes levied upon the people with slight respect to class or tenure. As a work of original research the book will be highly regarded by all who are aware of the extent and intricacy of the records of the Exchequer, for although the author has made use of only a fair portion of these archives, particularly the Pipe Rolls more than the Memoranda Rolls and Subsidy Rolls, he has accomplished, indeed, a greater task than has any one else in the same field.

The financial levies that are studied in detail include scutage, carucage, tallage, a poll tax, dona, aids and taxes upon personal property. Of all feudal incomes the most distinctive was scutage to which the author has given his best efforts. This was a method begun in the twelfth century by which the duty of knight service was allowed to be commuted at a rate varying from 20 shillings to 3 marks for each fief. Its importance lay not so much in the amount, which rarely exceeded £6000 at any time, but in the frequency of its incidence and in the possibility of its becoming a levy arbitrarily imposed by the king. Many were the devices by which the king sought to increase and extend the levy, some-

times exacting it for the fiefs of rear-vassals, sometimes demanding it for a fictitious campaign, so that it became a central point of contention between king and barons, until it gave rise to the constitutional principle stated in Magna Carta, that no scutage or aid should be imposed without the consent of the Great Council. A careful study of the subsequent levies shows that the scutage never became a tax or the basis of a tax, but retained its original character as a commutation of military service, until with the gradual failure of the feudal service it disappeared entirely.

Not to speak of other feudal exactions which are treated less exhaustively, the prototype of modern taxes is found in the aids levied upon personal property, the subsidies as they were afterwards called. These were probably first suggested by the tithe in the church, and consisted of either a tenth, a fifteenth, a twentieth, or other fraction of the personal property of the king's subjects. Sometimes the tax pertained to the clergy alone, sometimes to the laity; at other times it was exacted of all. It exceeded the scutage and all other dues in amount, since a single incidence of a thirtieth gathered as much as £60,000. Because the subsidy was based on no original right of the king, it was always a "gracious aid," that is a voluntary contribution made by the clergy and barons, sometimes also by knights and commons, for the king's needs on a single occasion. As the barons learned firmness and solidarity—we should hardly say "corporate unity"—in treating with the king, the bearing of these taxes on the integration of Parliament is manifest. There is also given a view of the Exchequer which at every levy undertook by means of juries an assessment of all personal property. It lies beyond the scope of the present work to show that, in order to avoid repeated assessments, in the next century the subsidy was made a settled sum for each shire. The reader will find further information on such subjects as the army, the estates of the barons, the value of money, and the material wealth of the nation.

The criticisms to which the work is exposed lie mainly on its literary side. The chronological arrangement, treating the various taxes of each year, gives rise to repetition as well as breaches of continuity. Too little concession, I think, is made even to the learned reader in the use of technical and obscure terms, which are introduced without hint or explanation of their meaning, e.g., compotus, jurati ad arma, feoda, honor in hand, gracious aid, lump sum, etc. Occasionally archaic forms of proper names are

inserted such as Chanteloup, Novo Burgo, Albiniaco. The Latin is usually correct but is remiss in "ad respondendum regi scaccarium" (p. 228). The index, which is good within its range, would be improved by the inclusion of various references like Pope, Templars, Hospitallers, Wardrobe, etc. Finally, a bibliographical list would serve to clarify the references which are in some cases obscure in the footnotes, e.g., Vincent, pp. 228, 240.

James F. Baldwin.

Vassar College.

The State. Its History and Development Viewed Sociologically.

By Franz Oppenheimer, Authorized translation by John M. Gitterman. (Indianapolis: The Bobbs-Merrill Company. 1913. Pp. v, 302, \$1.25.)

Since its publication in 1908 this book has attracted much attention in Germany and has been widely translated. Its interest lies in the fact that it is fresh and stimulating rather than distinctly original. The author's purpose is to present a sociological theory of the state, but like many other German scholars his sociology is chiefly philosophy of history, and most sociologists will also object that he limits his social theory wholly to economic interests. His attitude is essentially that of liberal socialism, the departure from Marxian doctrine lying chiefly in his differentiating economic means from economic ends. Insisting that every historical state has been a class state and every previous theory of the state a class theory, his own point of view is thus indicated:

I propose in the following discussion to call one's own labor and the equivalent exchange of one's own labor for the labor of others, the "economic means" for the satisfaction of needs, while the unrequited appropriation of the labor of others will be called the "political means."

As his theoretical basis is that of Marx, so his historical basis is avowedly that of Gumplowicz. The latter author's classification of the historical stages of social evolution is adopted with little modification.

The primitive state was the creation of warlike robbery, and the state in all its later phases, maritime, feudal, and constitutional, has retained this distinctly "political" character, in that it has always been founded on class exploitation. In other words, all history has involved one single phase, a contest between the "economic" and the "political" means. The maritime state was

characterized by a centralized system and a money economy, the feudal state by decentralization and landed estates. Just as the feudal state disintegrated through the emancipation of the peasantry, so the constitutional state, founded on capitalistic exploitation, will disappear when the "political means" shall have been supplanted by a "freeman's citizenship." In the new state wealth, which means dominion over men, will give place to well-being, which means control over consumption goods.

Like the author's other books, and especially *Die soziale Frage* und der Sozialismus, the scope of this work is an illustration of the desirability of retaining that sense of the unity of the social sciences which is in danger of being lost in the present tendency toward narrow specialization. It has an equal interest for the sociologist, the economist, and the political scientist. Without always being convincing, it throws illuminating light on certain vital questions in each of these fields.

ULYSSES G. WEATHERLY.

Indiana University.

The Economic Organisation of England. An Outline History. By WILLIAM JAMES ASHLEY. (London: Longmans, Green and Company. 1914. Pp. viii, 213. \$.90.)

Those who are interested in economic history may count it a happy chance that called Professor Ashley to Hamburg in 1912, for a course of lectures in the Colonial Institute. The eight lectures, now printed in this book, provide a brief survey of economic history which is by far the best of those known to the reviewer

in English or in other language.

Starting with the manor of the thirteenth century the book covers successively the gilds, the break-up of the manor, the rise of foreign trade and capitalism, domestic industry and Tudor policy, recent agricultural changes, the industrial revolution and freedom of contract, and, finally, the period of joint stock and the evolution of capitalism. The book closes with an appendix containing suggestions for further reading. It is really astonishing that in less than 200 pages the author has succeeded in sketching as clearly as he has done so many important features of economic development; and the reader is reminded again of the truth of E. A. Freeman's dictum that the way to write a good small book on any subject is to write first a large one.

Professor Ashley's keen interest in the present organization

has preserved him from wandering in the by-paths of the past: he has resisted, with a candid expression of regret, the temptation to discuss the vexed questions of institutional origins; and he has managed, in spite of the brevity of his sketch, to give it life by the use of numerous concrete illustrations from history and literature. Years ago he expressed the opinion that "everybody must be heartily sick" of the quotation from Latimer's sermon describing the position of the yeoman farmer; but Latimer appears again along with Jack of Newbury, and other stock figures of the past. At the Boston meeting of the Historical Association in 1899, Professor Ashley protested against the use of the vague terms Geldwirtschaft and Naturalwirtschaft; but he introduces the terms here without apology and, indeed, with great respect. Surely, he has been very sensible, to subordinate the critical to the constructive faculty; and the reviewer can only express his cordial admiration of the result.

CLIVE DAY.

Yale University.

Die wirtschaftliche Entwicklung von Alaska (und Yukon Territory). Ein Beitrag zu Geschichte und Theorie der Konzentrationsbewegung. By Edgar Salin. Archiv für Sozialwissenschaft und Sozialpolitik, Ergänzungsheft XII. (Tübingen: Verlag von J. C. B. Mohr. 1914. Pp. viii, 226, map. 5 M.)

This interesting contribution to the discussion of the Alaskan problem is divided into three principal parts. After a brief introduction outlining the history of the country and its chief geographic features, the first part presents a thorough and exhaustive analysis of its economic resources and its industries. The second part reviews the generally accepted theories of the movement towards concentration in modern industry and then illustrates these theories at length by drawing upon the data of Alaskan experience. The third and, to the American reader, most interesting part, presents conclusions as to the wisest policy to be pursued in attempting to foster the development of the huge natural resources of our great northwestern possession.

The work impresses one as being a thoroughgoing study. The material for part one has been gathered from a great variety of sources: from public documents, travelers' observations, popular fiction touching Alaskan life, and apparently (though the state-

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ment is nowhere directly made) the personal observations of the author in the field. This material is carefully digested and is presented to the reader in usable and interesting form. The theoretical part makes no claim to presenting anything novel. It is based mainly on such recognized works as Weber's *Ueber den Standort der Industrien*, but the elucidation of the theory by application to and illustration from Alaskan development shows a wide knowledge of the source materials.

The author's conclusions as to the future of Alaska and the proper means for its development may be summarized as follows:

The resources are very great. A huge development of mineral and fish export trade, far beyond its present dimensions, is not only possible but probable. The forest resources are fully sufficient at least to supply the home markets and possibly to furnish an excess for export; and even the pastoral and agricultural industries are capable of supplying Alaskan domestic demand. But the development of these resources has been hindered by grave faults in the policy of the American government. The "colonization" of Alaska has been permitted to develop as what the author calls Geld- oder Kapitalverwertungskolonisation or Trustkolonisation; and, although frankly recognizing the value and the inevitableness of certain features of development of this sort, he clearly sees, and supports his contentions by abundant evidence, the economically harmful effects of unhampered operation of the concentrative forces. His practical suggestions are that the government must seek to strengthen the position of independent individuals and associations of individuals and at the same time, without attempting to destroy the monopolistic groups, exercise such supervision of their activities as to limit their control over "outsiders."

The most crying problem of Alaska is that of land transportation. The author, after careful analysis of the various alternatives, declares himself in favor of government construction, though not necessarily of government operation, of railroads. Next in importance is the question of the coal lands, and again, after an analysis of the alternative suggestions the author favors government ownership with operation under a leasing system. Yet he nowhere betrays any marked bias in favor of government control as such. Railroads and coal lands demand such a system because of their peculiar relations to Alaskan problems. For most other industries the natural tendencies toward associational control may be allowed to take their course. In navigation, for example, the

government will have done all that may be economically wise if it remedies the defects in lighthouse, fog signal, coast patrol service, etc.; in the agricultural and pastoral industries, by relieving the settler of the necessity of paying for the survey of his holdings; in the fisheries, by establishing more widely spread hatcheries.

On the whole, the work is a sane, illuminating, and discriminating analysis of the Alaskan problem.

LINCOLN HUTCHINSON.

University of California.

Oesterreichs Handelspolitik mit Bezug auf Galizien in der Reformperiode, 1772-1790. By Henryk Grossmann. Studien zur Sozial-Wirtschafts- und Verwaltungsgeschichte, X. (Vienna: Verlagsbuchhandlung Carl Konegen. 1914. Pp. xvii, 510. 12 M.)

Between the unproven generalizations of hostile Polish and agrarian writers, the disapprobation of free-trade historians, and the gibe of Frederick the Great that Joseph II always failed because he always tried to take the second step before he had taken the first, Joseph II's reform measures in Galicia have received scant justice and very little detailed investigation. Following Kalinka (1853), whom the late Nisbet Bain calls "a writer of unimpeachable veracity and rare critical acumen," Joseph has been conceived of as treating the Austrian slice of Poland at the First Partition as a dumping ground for Austrian manufactures, as a colony to be exploited commercially and financially in Austrian interests. Such a conception, says Grossmann, is "grundfalsch." In his painstaking monograph, based on careful research in Vienna, Lemberg, and Cracow, he vigorously defends Joseph's measures.

For the first twelve years after taking possession, 1772-1784, Joseph steadily refused to incorporate Galicia into the Austrian tariff system; he allowed it to keep its separate economic existence and old Polish tariff system, though the rates were reduced and the exemptions of the nobility were abolished. He sought to stimulate Galician trade and prosperity by commercial treaties with Poland and Russia. He sought also a commercial arrangement with Prussia. It was only when Frederick the Great steadily refused to make any satisfactory arrangement and no longer allowed Galician exports to pass down the Vistula to Dantzig that Joseph was forced to give up his hope of promoting Galician trade

to the North. Instead, by the general Austrian tariff of 1784, he finally incorporated Galicia into the same uniform tariff system which was adopted for most of the Austrian state. He turned his eye also for the first time to the possibilities of Triest, which had so long been neglected by Austrian statesmen owing to their obsession for trade with the North, and tried to develop Galician trade by way of the Adriatic. At the same time he sought to build up industries in Galicia itself by introducing artisans from without. But by emancipating the peasantry he further weakened the feudal Polish landlords who were already suffering because they could no longer export their grain and hides and other produce freely down the Vistula. This fostering of industrial and commercial, rather than agrarian, interests, and this unifying, centralizing economic policy in the place of local feudal interests, Grossmann, like Schmoller, believes to have been in accordance with inevitable historical evolution, and therefore wise and justifiable on Joseph's part. At any rate, the population of Galicia increased enormonsly during the reform measures from 2,580,000 in 1776 to 3,388,000 in 1790.

Though he has overstated his case at points, the author, by his detailed analysis of this section of Austrian commercial policy, has made a valuable contribution to the general subject of mercantilism. His full bibliography (pp. 498-510) contains convenient references to valuable works in Polish as well as in German which deal with Austrian trade in the second half of the eighteenth century.

SIDNEY B. FAY.

Smith College.

NEW BOOKS

Adams, F. U. Conquest of the tropics. (New York: Doubleday, Page & Co. 1914. Pp. xiii, 308. \$2.)

The purpose of this non-scientific book is to portray alluringly the achievements of the United Fruit Company and to refute charges of monopoly.

Bachi, R. L'Italia economica nell' anno 1913. (Castello: S. Labi. 1914.)

Banca Commerciale Italiana. Cenni statistici sul movimento economico dell' Italia. (Mailand: Capriolo & Massimino. 1914. Pp. 310.)

Benton, J. H. John Baskerville, type-founder and printer, 1706-1775. (Boston: D. B. Updike. 1914. Pp. 78.)

- Besson, H. Dictionnaire des principales rivières en France utilisables pour la production de l'énergie électrique. I Bassins de la Seine et de la Loire. (Paris: Gauthier-Villars. 1914.)
- Bikel, H. Die Wirtschaftsverhältnisse des Klosters St. Gallen von der Gründung bis zum Ende des 13. Jahrhunderts. (Breisgau: Herdersche Verlagshandlung. 1914. Pp. xiv, 351. 7 M.)
- Bland, Brown, and Tawney, editors. English economic history. Select documents. (London: Bell. 1914. 6s.)
- BOGART, E. L. and THOMPSON, C. M. Exercise book in economic history of the United States. (New York: Longmans, 1914. Pp. 63. 50c.)
- Bresard, M. Les foires de Lyon aux XV° et XVI° siècles. (Paris: Picard. 1914. Pp. viii, 386. 7.50 fr.)
- Briggs, M. Economic history of England. (London: Clive. 1914. Pp. viii, 508. 5s. 6d.)
- CLOUZOT, H. Le métier de la soie en France (1466-1855), suivi d'un historique de la toile imprimée (1759-1815). (Paris: Devambez. 1914. Pp. 182.)
- Cohen, I. Jewish life in modern times. (New York: Dodd, Mead & Co. 1914. Pp. 374. \$3.)
- COOPER, F. T. Thomas A. Edison. (New York: Stokes. 1914.
 Pp. vi, 236. 75c.)
- Dorno, F. Der Fläming und die Herrschaft Wiesenburg. Agrarhistorische Studien aus den nördlichen Aemtern des sächsischen Kurkreises. Staats und sozialwissenschaftliche Forschungen, 178. (Leipzig: Duncker & Humblot. 1914. Pp. viii, 111. 3 M.)
- FOSTER, W. The English factories in India, 1646-1650. Vol. VIII. (London: Clarendon Press. 1915. Pp. 394. 12s. 6d.)
- Fox, J. H. The woollen manufacure at Wellington, Somerset. Compiled from the records of an old family business. (London: Humphreys. 1914. Pp. 121. 7s. 6d.)
- Garaud. L'Abbaye Sainte-Croix de Talmond en Bas-Poitou, circa 1049-1250, d'après le cartulaire: étude, d'histoire économique et sur le droit du poitou au moyen âge. (Poitiers: Bouarez. 1914. Pp. xvi, 219.)
- Gehrig, H. Die Begründung des Prinzips der Sozialreform. (Jena: Fischer, 1914. Pp. vi, 381, 8 M.)
- Gras, N. S. B. The evolution of the English corn market from the twelfth to the eighteenth century; an investigation of the development of the market idea. (Cambridge: Harvard University Press. 1914.)
- GRAY, E. William Gray, of Salem, merchant; a biographical sketch. (Boston: Houghton Mifflin. 1914. Pp. viii, 124, illus.)

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- JUERGENS, A. Zur Schleswig-Holsteinischen Handelsgeschichte des 16. und 17. Jahrhunderts. (Berlin: Curtius, 1914. Pp. xvi, 316. 9 M.)
- Morse, E. L., editor. Samuel F. B. Morse. His letters and journals. Two volumes. (Boston: Houghton Mifflin Co. 1914. Pp. xxi, 440; xi, 548. \$7.50.)
- RAJNIK, B. Die wirtschaftspolitischen Beziehungen zwischen Oesterreich und Ungarn und die internationalen Interessen. (Munich: Duncker & Humblot. 1914. Pp. iii, 88. 2.50 M.)
- Rushisel, L. C. Industrial-commercial geography of the United States. (New York: A. N. Palmer Co. 1914. Pp. 294. \$1.25.)

 The author, who is the principal of the High School of Commerce at Omaha, states that this book was written "to fill a demand from teachers all over the country for concise, condensed information, not found in the ordinary textbook, which may be used in the school-room and illustrated by the use of process exhibits." It is his opinion that a study of a country's great industries is the surest method of obtaining a practical knowledge of the country. Thirty-one chapters cover nearly as many industries. In addition, there are chapters on the evolution of the railway and the steamboat; the commerce of our inland seas; the Eric, "Soo," Suez, and Panama canals; irrigation, and conservation. The treatment is necessarily more brief and superficial than one might wish to find in a book of this sort.

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- Simenon, G. L'organisation économique de l'Abbaye de Saint-Trond depuis la fin du XIII^e siècle jusqu'au commencement du XVII^e siècle. (Brussels: Hayez. 1913. Pp. 632.)
- SLOKAR, J. Geschichte der oesterreichischen Industrie und ihrer Förderung und Kaiser Franz I. (Vienna: Tempsky. 1914. Pp. xiv, 674. 25 M.)
- SMIT, H. J. De opkomst van den handel van Amsterdam. Onderzoekingen naar de economische ontwikkeling der stad tot 1441. (Amsterdam: A. H. Kruyt. 1914. Pp. 318. 3.50 fl.)
- Soehn. Geschichte des wirtschaftlichen Lebens der Abtei Eberbach im Rheingau, vornehmlich im 15. und 16. Jahrhundert. (Wiesbaden: Bergmann. 1914.)
- Terry, T. P. Terry's Japanese empire, including Korea and Formosa, with chapters on Manchuria, the Trans-Siberian railway and the chief ocean routes, etc. (London: Constable. 1914. Pp. xxxii, 799. 21s.)
- Tulloch, D. Worcester, city of prosperity. (Worcester: Commonwealth Press. 1914. Pp. 324.)

- TUTTLE, C. R. Alaska. Its meaning to the world; its resources; its opportunities. (Seattle: Franklin Shuey & Co. 1914. \$2.50)
- VERRILL, A. H. Cuba, past and present. (New York: Dodd, Mead. 1914. Pp. 257. \$1.50.)
- Rhode Island imprints, 1727-1800. (Providence: Preston & Rounds Co., 98 Westminster St. 1914. Pp. 88, plates. Subscription \$5 for special edition.)

Contains over 1560 entries of books, pamphlets, newspapers, broadsides, and fly-sheets printed in the colony and state during the eighteenth century.

Agriculture, Mining, Forestry, and Fisheries

NEW BOOKS

- Altrock, W. Der landwirtschaftliche Kredit in Preussen. I. Die östpreussische Landschaft. (Berlin: Parey. 1914. Pp. 219. 6 M.)
- CALVERT, A. F. Nigerian tin fields. Second edition. (London: Effingham Wilson. 1914. 1s.)
- CAZIOT, P. La valeur de la terre de France. (Paris: Baillière. 1914.)
- David, E. Die Kupferhüttenindustrie. Ein Beitrag zu dem Problem der industriellen Standortsverteilung. Münchener volkswirtschaftliche Studien, 123. (Stuttgart: Cotta. 1913. Pp. xv, 177. 4.50 M.)
- Dick, W. J. Conservation of coal in Canada with notes on the principal coal mines. (Ottawa: Commission of Conservation, Canada. Committee on Minerals. 1914. Pp. 212.)
- EARLE and DEAN. Cotton. Classification and grading of cotton. Farmers' bulletin 591. (Washington: Dept. Agr. 1914. Pp. 23.)
- ECKEL, E. C. Iron ores: their occurrence, valuation, and control. (New York: McGraw-Hill. 1914. Pp. xvii, 430. \$4.)
- ELIASCHEWITSCH, A. Die Bewegung zugunsten der kleinen landwirtschaftlichen Güter in England. (Leipzig: Duncker & Humblot. 1914. 9 M.)
- HAYWARD, W. H. and others. Report of the Royal Commission on Agriculture. Part I. (Victoria, 1914. Pp. ix, 42.)
- HERRICK, M. T. Rural credit. (New York: Appleton. 1914. Pp. xix, 519. \$2.)

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- Jones, J. W. Fur-farming in Canada. Second edition, revised and enlarged. (Ottawa: Commission of Conservation, Canada. Committee on Fisheries, Game, and Fur-bearing Animals. 1914. Pp. 278.)

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Jowanowitsch, M. Die serbische Landwirtschaft. (Munich: Reinhardt. 1914. Pp. 98. 2.50 M.)

Mabson, R. R. Mines in Africa. (London: The Statist. 1914.)

Meadows, W. R. Economic conditions in the Sea Island cotton industry. Department bulletin 146. (Washington: Dept. Agr. 1914.)

Petersen, M. The fur traders and fur bearing animals. (Buffalo, N. Y.: The Hammond Press. 1914. Pp. 372, illus. \$3.50.)

PROTHERO, R. E. English farming past and present. (London: Longmans. 1912. Pp. xiii, 504. \$4.)

Those of us who have again and again tried to procure copies of Prothero's Pioneers and Progress only to be told that the book was out of print and unobtainable, gratefully welcomed the publication of the more imposing English Farming, Past and Present. This later volume is essentially an expansion of the previous work. In 100 pages are described the manorial system of agriculture and the sheep grazing and open field farming of the days before James I. The progress of agriculture and the agricultural pioneers, Tull, Townshend, Bakewell, Young, and others from 1603 to the Napoleonic wars, cover an equal number. About 199 pages are devoted to the very important transition period, ending politically in 1815. Approximately one fourth of the book is given over to the tremendous changes and improvements of the century ending 1912. Only a short chapter is devoted to the period of 38 years from 1874 to 1912.

The survey is comprehensive and well written and the most satisfactory summary of the development of English agriculture. Nevertheless, one feels that the virility and cogency of the earlier volume is lacking; that, after all, the meat of the cocoanut is in Pioneers and Progress written twenty-five years ago. The author himself feels that the continuity of the work has suffered because of his absorption in other affairs, and the reader is conscious of the author's detachment from the realities of modern agriculture and the almost revolutionary changes in farm practice and agricultural organization that have been taking place during the last quarter of a century.

The comparatively small space allotted to recent agrarian changes, especially the organization of agriculture and the socialization of farming, is somewhat disappointing to students of rural problems. Notwithstanding the recent accumulations of first-hand material on farm and labor and its problems, agrarian legislation, intensive farming, market gardening, marketing associations, and the like, the author dismisses them with a few general paragraphs. Opinions are usually well supported by evidence and the material is well arranged, but the unusually long paragraphs and the comparatively small type detract somewhat from the pleasure of reading the book.

A. E. Cance.

- ROUSH, G. A. The mineral industry; its statistics, technology and trade during 1913. Vol. 22, supplementing vols. 1-21. (New York: McGraw-Hill. 1914. Pp. xix, 1010, \$10.)
- RUEMKER. Die deutsche Landwirtschaft, ihre Bedeutung und Stellung im In- und Auslande. (Berlin: Parey. 1914. Pp. 58. 1.20 M.)
- Schoenfeld, R. Die Kohlen- und Eisenerzfrage der Gegenwart und Zukunft. (Dresden: Wulffen. 1914. Pp. xi, 101, 42. 3.60 M.)
- Shaw, N. Chinese forest trees and timber supply. (London: Unwin. 1914. 10s. 6d.)
- THOMPSON, E. H. and DIXON, H. N. Profits in farming on irrigated areas in Utah Lake Valley. Department bulletin 117. (Washington: Dept. Agr. 1914. Pp. 21.)
- TRIMBLE, W. J. The mining advance into the inland empire. Bulletin of the University of Wisconsin, No. 638. (Madison: University of Wisconsin, 1914. Pp. 254, 40c.)

For a decade after the discovery of gold in California the search for the precious metals was almost confined to that state, but by 1858 the industry spread into other regions-to the Southwest, to Colorado, to Nevada, and to the Northwest. It is the last movement that forms the subject-matter of this monograph. By the term Inland Empire the author means to cover that part of the Pacific Northwest included in the southern interior of British Columbia, eastern Oregon and Washington, western Montana, and Idaho. Into this region there was a series of rushes that swept the miners from camp to camp, but which left in most cases after the flow and ebb of the floating population a substantial colony and the beginnings of permanent settlement. The first rush to Colville, in northeastern Washington, was diverted by the Indian uprising of 1855, but two years later news of gold discoveries on the Fraser River in British Columbia caused a veritable exodus from the California and other older fields to that district. Cariboo, Kootenai, and the upper Columbia north of the boundary line, and Idaho, Oregon, and Montana to the south, were each in turn overrun by a restless tide of gold-seekers.

The story of this advance of the pioneer miners into the wilderness is interestingly told in the first part of the study, and is followed by an account of the economic, social, and governmental aspects and problems to which these settlements gave rise. From the economic point of view the most important conclusion of the author is that coöperation and capitalistic methods of production were characteristic of gold production almost from the beginning. The "lone prospector" was pretty much a myth after 1860. After the discovery of the Comstock lode the tendency towards capitalism and corporate methods was immensely accelerated. As facts of social significance the author notes the composite character of the population, the ways in which they lived and amused themselves, their education and religion. The establishment of government and law

in British Columbia and the tardier evolution of order and law in the American territories are traced in the final chapters.

The monograph is based in part upon manuscript sources and upon interviews with pioneers, and has doubtless preserved much information that might otherwise have been lost. It is an interesting as well as careful piece of work, and contains not a little material that is of value to the economist as well as to the historian,

E. L. BOGART.

Vermant, R. and de Zuttere, C. Enquête sur la pêche maritime en Belgique. (Brussells: Lebègue & Cie. 1914. Pp. 596. 4.50 fr.)

Vulte, H. T. and Vanderbilt, S. B. Food industries; an elementary text-book on the production and manufacture of staple foods. (Easton, Pa.: Chemical Pub. Co. 1914. Pp. viii, 309, illus.)

Waugh, F. A. Rural improvement. (London: Kegan Paul. 1914. 6s.)

WEED, C. M. Crop production; an agricultural text for schools. (New York: Heath. 1914. Pp. 246. 75c.)

Cotton facts. 1914 edition. (New York: Shepperson Pub. Co. 1914. \$1.)

Fourth annual report of the Director of the Bureau of Mines to the Secretary of the Interior for the fiscal year ended June 30, 1914. (Washington: Dept. of the Interior. 1914. Pp. 101.)

The production of coal and coke in Canada during the calendar year 1913, (Ottawa: Dept. of Mines. 1914. Pp. 40.)

Report of the departmental committee on agricultural credit in Ireland. Cd. 7375. (London: Wyman. 1914. 4s. 8d.)

Report of the Welsh Land Enquiry Committee. (London: Wyman. 1914, 1s.)

Manufacturing Industries

The Tinplate Industry. A Study in Economic Organisation. By J. H. Jones. (London: P. S. King and Son. 1914. Pp. xx, 280. 7s. 6d.)

In this monograph a welcome addition is made to the rather meager literature on the economic aspects of specific industries. There are chapters dealing with the technique of production, the history of the industry, and the effects of American tariffs upon the American and the Welsh tinplate manufactures, but the writer concerns himself mainly with the problems of industrial organization and with the manner in which the industry has been carried on in South Wales.

Starting with the causes which brought about the localization

and concentration of production, the author gives a comprehensive account of the gradual change in methods of making and marketing tin plates and in ways for regulating the relationship between employers and employees. Mr. Jones then analyzes the movement towards combination. He discusses the present tendency towards "vertical integration," i.e., the interlocking of interests of steel and tinplate manufactures, and forecasts the probable relations of the two. After this he reviews the various stages through which labor organizations have passed, from the first union, which was merely a strike organization, weak in numbers, to the present time when tinplate workers are among the best organized in the kingdom, over 99 per cent of them belonging to unions.

Mr. Jones takes issue with those who attribute the prosperity of the Welsh tinplate industry in recent years to the dumping of German, American, and Belgian steel bars upon the English markets. His discussion is rather involved and not very conclusive. On pages 157 and 158 he gives many reasons why he considers that the prices of the imported bars were not so cheap relatively to the home product as they appeared to be. Whether he refers to the prices of the home product before or after dumping is not made clear. On page 159 he states that because of dumping the local steel manufacturers were often forced to reduce the prices of their own bars very considerably; and on page 161 he admits that the destruction of the bar monopoly was undoubtedly an advantage to tinplate manufacturers, but an advantage, he adds, purchased at a considerable cost. prosperity of the tinplate industry, according to him, was due to the increased use of tinned food, etc.; what the "etc." stands for is not suggested; perhaps under the increased use of tinned food the author refers only to the domestic trade of Great Britain, and the etc. covers the expanding foreign markets outside of the United States.

It is difficult to reconcile the various statements of Mr. Jones concerning the effects of a rise in the price of tin plates upon the industries using them. On page 19 he asserts that even a considerable change in the cost of the tin case will not affect the price of tinned goods sufficiently to influence sales to any considerable extent. On page 78 he states that the American canning industries suffered heavily from the increase in duty on tin because the canners were not able to shift the duty upon the final consumers.

Concerning the effects of the duty on tin upon the export trade of the United States, the writer says on page 79 that this duty placed Russia and Burmah in a better position to compete for the petroleum markets in the East; on the following page he contradicts himself by stating that large firms in the United States, such as the Standard Oil Co., probably benefited from the duty; "since they enjoyed the rebate on re-exported plates they were as well off as they had ever been."

Mr. Jones, in his statistical data, refers to individual years. This relieved him from the necessity of calculating averages for three, five, or ten-year periods; but it is doubtful whether such a method of handling statistics is conducive to an accurate knowledge of tendencies in the development of an industry.

SIMON LITMAN.

University of Illinois.

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NEW BOOKS

GREINEDER, F. Die Wirtschaft der deutschen Gaswerke. (Munich: R. Oldenburg. 1914. Pp. 61. 3 M.)

Moore, A. S. Linen; from the raw material to the finished product. (New York: Pitman. 1914. Pp. 132. 75c.)

The transactions of the annual meeting of the National Association of Cotton Manufacturers held at Boston, Mass., April 29 and 30, 1914. (Boston: The Assoc. 1914. Pp. 420. \$5.)

Transportation and Communication

The Express Service and Rates. By W. H. CHANDLER. (Chicago: LaSalle Extension University, 1914, Pp. v, 340.)

This is a book of practical information on the service offered by express companies. Although prepared, in one view, for use as a text in courses on transportation, it will prove of great value to all regular users of the express service, and, for that matter, to express agents who wish a comprehensive knowledge of the express transportation service as now organized and of the way to use or render this service most intelligently.

The author is now assistant manager of the Traffic Bureau of the Merchants' Association in New York. Formerly he served in a similar capacity with the Boston Chamber of Commerce. During the recent investigation by the Interstate Commerce Commission into express rates and practices, he had an active part in preparing the case for the shippers. His experience has thus given him opportunity to study those things about express transportation which shippers and express agents most need to know.

After a preliminary account of the origin and early development of the express business, the author gives a survey of the present general organization of the service by companies, a brief sketch, from the Interstate Commerce Commission's opinion in the express cases, of the history of the various companies, and then describes in outline the business organization within each company and the various services rendered by express companies. This occupies 31 pages. The next 29 pages contain a brief statement of the intercorporate relations between express companies and railways, and a more extended discussion, quoted from the Interstate Commerce Commission's opinion, of the form of contract that constitutes the basis of railway compensation for hauling express matter. The author's own conclusion, briefly given without argument of his own, is that the railways seem to be paid too much for this service. The next 22 pages are devoted to the growth and present status of public regulation of the express business by those states which have undertaken it and by the Interstate Commerce Commission.

The remaining 250 pages or so are occupied entirely with compact descriptions of various points of contact between shippers and the express companies. These descriptions cover the classification of express shipments, giving a facsimile of the printed classification in full; an explanation of the content of the express receipt and the shipper's rights thereunder; a full explanation of the structure and method of applying the new express rates, with facsimile pages from the rate books and the directory of express offices; directions concerning the nature of, and the manner of using, the money department, the financial department, the foreign department, and the order and commission department of express companies. In addition there is a copious display of all the numerous forms in use by express companies that shippers have occasion to meet with.

Concluding chapters discuss the comparative service and charges by express and by parcel post and give a sketch of the Canadian express rates. There are, at frequent intervals, series of questions, presenting a variety of problems actually met with in practice, that will focus the attention of the reader upon the significant points in the information given in the preceding pages. There is, however, no index. This is a serious defect in a book designed for such use as this one.

The matter in the book is so largely descriptive and explanatory that it invites little discussion. However, the author's treatment of some points that have been much in controversy plainly discloses the convictions that one would tend to acquire from such continued activity as the author's in behalf of shippers. This, of course, is no cause for deprecation. But it is well for those who use the volume for its information to be aware of the author's point of view on these disputed subjects.

ARTHUR S. FIELD.

Washington, D. C.

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NEW BOOKS

- Babson, R. W. The future of the railroads; historic and economic facts for railroad men, shippers, and investors. (Boston: Babson's Statistical Organization. 1914. Pp. 129. \$1.)
- Hooker, G. E. Through routes for Chicago's steam railroads. The best means for attaining popular and comfortable travel for Chicago and suburbs. (Chicago: City Club of Chicago. 1914. Pp. 89, illus.)
- Monkswell, R. A. French railways. (New York: Dutton. 1914. \$1.25.)
- ROSENTHAL, C. A. Die Gütertarifpolitik der Eisenbahnen im Deutschen Reiche und in der Schweiz. (Jena: Fischer. 1914. Pp. xv, 346. 9 M.)
- Todd, J. T. Tracing of freight; a compilation of data and comments thereon. (Springfield, Ill.: Registered Tracer System. 1914. Pp. 106.)
- A. C. A. docket no. 20. A cumulative synopsis of topics, subjects, and authoritative citations of a library of interstate commerce, railway traffic and traffic management work. (Chicago: American Commerce Assoc. 1914. Pp. xviii, 220.)
- Central electric light and power stations and street and electric railways, 1912. Bulletin 124. (Washington: Bureau of the Census. 1914. Pp. 113.)
- Telephones and Telegraphs, 1912. Bulletin 123. (Washington: Bureau of the Census. 1914. Pp. 26.)

Trade, Commerce, and Commercial Crises

Ocean Traffic and Trade. By B. Olney Hough. (Chicago: La Salle Extension University. 1914. Pp. vi, 432.)

The dominant point of view in this book is that of a prospective exporter. The most valuable chapters are those in which actual methods of carrying on foreign trade are explained. There is

little analysis of cause and effect, as is shown by the simple review questions appended to each chapter. Most of these questions ask "what" or "how," not "why." For purposes of instruction a series of specific trade problems would be far better than these questions. Constructive thinking can be stimulated only by constantly seeking reasons; in other words, by asking "why." This book would be more practical if it were more theoretical.

Although not arranged in this order, the topics considered fall into five groups: (1) general, including a description of the ocean carrying service, shipping terms, and a summary of the shipping policy of the United States; (2) ocean routes, and port and terminal facilities; (3) ocean freight rates, shipping agreements and pools, and the profits of shipping companies; (4) methods of handling shipments and of preparing shipping documents; and (5) methods of developing foreign business.

Emphasis is laid upon the fact that the obstacles to the growth of the American merchant marine are not a lack of subsidies, but provisions in our navigation laws regarding measurements, inspections, and number of seamen. Apparently there is urgent need of international standardization of measurement rules.

The description of ocean routes and of seaports and terminal facilities contains little that is new. One of the "surest" results anticipated from the opening of the Panama Canal is that New York will rival London as a wool center. As a matter of fact, New York is much less of a wool center than Boston and probably will remain so. Furthermore, no port in the United States is likely to become a distributing point for Australasian wool unless our banks unexpectedly break London influence by establishing sufficiently strong financial relations with the foreign wool growers and shippers. Other prophecies concerning the effects of the Panama Canal are also inconclusive.

The statement of the diversity of terms and practices in quoting ocean freight rates is noteworthy, since it shows how difficult it is for an inexperienced exporter to ascertain exactly what it will cost him to ship his goods. "One and the same line quotes some rates in shillings per long ton and other rates in cents per foot, per unit, per package, or per 100 pounds, while another line reverses the practices of the first in some or even in all respects" (p. 112). Rates are seldom published and ordinarily the shipper is not permitted to see the tariff. The rates are con-

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stantly changing. Consequently an exporter, in quoting a price to a foreign customer, must guess as to what the freight charges will be. The smaller and less continuous his export business, the greater is his uncertainty. Much more has been done in Germany toward standardizing rates than in this country. For most exporters such standardization is of greater importance than the actual amounts of the rates themselves. Shipping terms, also, are far from being standardized. "F. O. B. New York," for example, may or may not include payment for transfer from railroad car to ship. Misunderstandings arising from such confusion often cause embarassment and loss to exporters or their customers and thus check future business.

With reference to the handling of shipments, Mr. Hough explains the points to be cared for in packing and in obtaining bills of lading, shipping permits, consular invoices, and marine insurance policies. The requirements vary between countries and must in every case be exactly observed, in order to protect the goods, and to safeguard the shipper, the consignee, and the banks which have advanced money upon the security of the documents.

In the final section, on developing foreign business, the author has failed to recognize what seems to me to be the chief lesson of his book-that, under present conditions, we cannot expect our export trade in manufactured goods to increase rapidly except through export merchants. The complications in choosing routes, ascertaining rates, giving shipping instructions, preparing shipping documents, handling advertising and correspondence, securing salesmen, establishing connections, and granting credit, show that it is idle to advise manufacturers with medium-sized businesses to attempt to carry on their own export trade. In England, Germany, and France, contrary to Mr. Hough's implication, it is the export merchants who study foreign markets, develop trade and grant credit. The dearth of such merchants in this country has seemed to me to be one of the chief obstacles to a growth of our export trade in manufactures, and this conviction is strengthened by Mr. Hough's book.

MELVIN T. COPELAND.

Harvard University.

NEW BOOKS

AKERS, C. E. The rubber industry in Brazil and the Orient. (London: Methuen. 1914. Pp. 336, illus. 6s.)

- Brown, H. G. International trade and exchange; a study of the mechanism and advantages of commerce. (New York: Macmillan, 1914. Pp. xiii, 153. \$1.50.) To be reviewed.
- Musgrave, C. E. Trade and the war; trade maps, charts, and statistics. (London: Gill. 1914. 1s.)
- Osborne, R. S. Modern business routine explained and illustrated. Vol II. The import and export trade. (London: Wilson, 1914, Pp. 328. 3s. 6d.)
- SCHMIDT, F. Der Weltverkehr. Staatsbürger-Bibliothek, 41. (M. Gladbach: Volksvereins-Verlag. 1914. Pp. 64. 0.40 M.)
- SCHMIDT, P. H. Die Schweiz und die europäische Handelspolitik. (Zurich: Füssli. 1914. Pp. viii, 319. 5.60 M.)
- Schuster, E. J. The effect of war on commercial transactions. (London: King. 1914, 2s. 6d.)
- VERRILL, A. H. South and Central American trade conditions to-day. (New York: Dodd, Mead. 1914. Pp. 266, \$1,25.)
- British trade with Russia. (London: Burr. Pp. 70. 6d.)
- Philip's chamber of commerce atlas. The enemies' commerce; its position and resources revealed. (London: George Philip & Son. 1914.)

Accounting, Business Methods, Investments, and the Exchanges

Retail Selling and Store Management. By PAUL H. NEYSTROM.

Commercial Education Series. Prepared in the Extension
Division of the University of Wisconsin. (New York: D.

Appleton and Company. 1914. Pp. viii, 280. \$1.50.)

Although a great deal which is quite valueless has been written concerning business matters, recently there has been less superficial treatment of such subjects. The change is largely due to the more scientific handling of business problems by business men and teachers of business in universities. Professor Neystrom's book represents an added advance in the discussion of commercial methods, for he brings to the task the trained mind of an economist, and has realized that no salesman can get the best results without a knowledge of his relations to what is really an organization of specialists of greater or less ability than his own.

The book is intended for practical use, and in covering so wide a field as has been necessary to give the broadest possible view it lacks something of thoroughness and technical treatment. But the principles of salesmanship have been dealt with in considerable detail and such subjects as leaks and losses in retail stores, window displays, the relation of the salesman to his employer and the public, efficiency and store organizations, store policy, standards of efficiency, cost of selling, buying, advertising, credits and collections, relation of the store to its salespeople and the public, are intelligently treated. In the arrangement of his material the author has not been so happy. If he had begun with the store organization, the relation of the salesman to the whole would have been more apparent and the necessity of repetition in later chapters would have been avoided. The space so obtained might well have been occupied with a larger number of charts, than which nothing enables the student of business so readily to grasp its complete details.

It seems strange, too, that one whose vision of so much of the power in salesmanship is so clear should not be able to see the advantages which lie in this new method, of finding the need of the customer and being sure it is satisfied, over the old one of over-urging. He is weak, also, in his analysis of the sale. He does not seem to realize that by watching the merchandise which the customer seems to like-by eliminating the undesirable by not showing too much—the want of the customer is more surely satisfied and less responsibility is assumed by the salesman. In so far as he emphasizes the paternalistic responsibility of the employer in requiring him to furnish lunches, rest room, etc. for his employees he is not in the vanguard of the thought of the day. He ignores the fact that they may get those things for themselves. However, he emphasizes very important considerations when he calls upon the employer to give attention to such questions as the living wage; the need for employees to understand their work; and the desirability of understudies in all positions in business, in order to make promotions possible.

A. LINCOLN FILENE.

The Export of Capital. By C. K. Hobson. Studies in Economic and Political Science, No. 38. London School of Economics. (London: Constable and Company, Ltd. 1914. Pp. xxv, 264. 7s. 6d.)

Mr. Hobson's investigation begins with an analysis of the methods of making foreign investments. Since capital is conceived to be "a stock of commodities employed to assist the production of further commodities" (p. xi), the process of investing

capital abroad must be that of increasing exports or diminishing imports. "With the growth of industry all over the world the proportion of British foreign investments which take the form of exports from the United Kingdom has probably declined"

(p. 7).

The primary cause of capital exports is the greater prospective return to be had on foreign as compared with home investments. Against this difference must be charged the heavier cost of learning about business affairs in foreign parts; but this cost is being reduced relatively or absolutely by the spread of education, by the accumulation of experience, by organization among investors, and by every increase in the size of the loans asked for and in the sums which given investors have to offer. These reductions in the costs of acquiring knowledge, together with greater stability of conditions in the new countries which are heavy borrowers, explain why the yield on many foreign securities has not risen recently in anything like the same proportions as the yield on consols (p. 42).

As for the effects of foreign investments, it is clear that they tend immediately to keep interest rates up in the lending and to drive rates down in the borrowing country. "From the point of view of maximising the amount of home production, it is evidently desirable that the rate of interest should be as low as possible" (p. 55). Hence the plausibility of the view that government should check the export of capital by differential taxes. But, in so far as foreign investments are not wasted in war or lost in foolish enterprises, they accelerate the economic development of lands which become important sources of supplies for the home country, important markets for her products, and desirable homes for her emigrants. In the long run, therefore, interference with foreign investment "would diminish the amount of the national income and lower wages; and would probably lead to increased emigration. . ." (p. 75).

There follow three interesting chapters on the history of British investment in foreign lands. "It is roughly but a century since Great Britain began to send large masses of capital abroad . . . in the seventeenth and eighteenth centuries probably more capital was imported into the United Kingdom than was exported" (p. xv). For a generation after the Napoleonic wars England had her period of predominance in the market for foreign loans. Then France, the Netherlands, Germany, and later the United

States, began gradually to offer a part of their savings in the international market. Nevertheless, British exports of capital continued to grow rapidly, though unsteadily; and at present they probably equal or exceed the combined foreign loans of France, Germany, the Netherlands, and Belgium (p. 161). Moreover, there is every reason to expect that the rapid increase of British foreign investments will continue in the future. The most notable influence of foreign competition is that British investors have pushed further afield, acting as pioneers in opening new countries, and leaving to their continental rivals an increasing share of the more conservative securities.

Mr. Hobson's chief contribution, however, is his effort to measure the annual export of capital from Great Britain since 1870. Starting with the Board of Trade's statistics of imports and exports he takes into account freights, commissions, insurance, ships sold, interest received, etc. The final results (p. 204) show wide fluctuations, dominated by the phases of successive business cycles, and by the borrowings of the British government. The following extract from the table shows the net exports (+) or imports (-) of capital in millions of pounds in the years of successive maxima and minima.

1870	+31.7	1896	+ 59.3
1872	+83.5	1898	+ 17.2
1877	- 15.4	1900	+ 31.2
1881	+33.2	1902	+ 11.2
1883	+16.9	1907	+140.2
1890	+ 82.6	1909	+ 110.1
1894	+21.3	1911	+ 192.2

Large as these sums are, they appear to be exceeded about fivefold by the British investments of capital within the United Kingdom. Moreover, the home investments seem to be increasing faster absolutely than the foreign investments, though not so fast relatively (p. 207).

The book as a whole takes high rank among doctoral dissertations in economics. It shows capacity to do analytic, historical, and statistical work, and in the latter branch at least it really breaks new ground.

WESLEY C. MITCHELL.

Columbia University.

Goodwill. Its Nature and How to Value It. By P. D. LEAKE. (London: Gee and Company. 1914. Pp. 24.)

The author first considers briefly the original use of the term good-will and the definition usually given therefor, which he considers too narrow in that it relates only to ready-formed connections with customers and fails to take into consideration the frequent purchase of good-will in embryo. Good-will in its full meaning, as used by the author, comprises the value lodged in (a) rights to carry on industrial and commercial enterprises, with the benefit of current contracts, including leases, and the use of trade-names, and trade-marks; (b) patent rights; (c) copyrights; (d) rights to exercise monopolies; all of which, with the possible exception of the last-named, represent existing values traceable to the exercise in the past of personal industry, skill, and ability.

Having in mind the above-stated limits to the field in which good-will operates, Mr. Leake says:

Goodwill, in its commercial sense, is the present value of the right to receive expected future "super-profits," meaning the amount by which future revenue, increase, or advantage, to be received, is expected to exceed any and all expenditure incidental to its production.

Inasmuch as money can always obtain a normal annual wage without the payment of an initial premium the vendor of goodwill is entitled only to the present value of an annuity equal to an annual share of future super-profits, i.e., the profits after deducting therefrom the amount sufficient to pay the normal rate of interest on the investment.

Super-profits seldom exist permanently nor can a purchaser reasonably expect to acquire the whole benefit of future annual super-profits; therefore the vendor is entitled to be paid only the present value of an annuity equal to the share which he is able to transfer and deliver to the purchaser. Granting this premise, the computation of the value of good-will becomes, in the author's view, a relatively simple matter, although he recognizes the difficulty of determining the number of years during which super-profits may fairly be expected to continue as the result of the work already done and the influence of the vendor.

The personality of the buyer is also a factor having in some cases an important bearing upon the value of good-will while in others it is relatively unimportant. In the purchase of the good-will of a professional practice, for instance, the personality of

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the buyer is of extreme importance while the good-will of a steel company might readily pass from one group of owners to another group without any material effect upon its value.

Up to this point, Mr. Leake has succeeded in clarifying the atmosphere and clearly stating the principles underlying the valuation of good-will; and in so doing he has performed a useful service to economists, accountants, and business men alike. There will always be ample room for differences of opinion, however, in determining the period during which profits may be expected to continue at a given level; thus the purchase and sale of good-will will probably always be dealt with on a more or less rough and ready basis of value rather than upon anything approaching a truly scientific one.

A further point of controversy certain to arise in attempting to apply the principles of valuation laid down by Mr. Leake is the determination of a normal rate of interest on the capital invested. There may be such a thing as a normal rate of interest but certainly it does not lend itself to ready identification.

Mr. Leake's definition of good-will will serve to stimulate thought even though it probably will not gain general acceptance at once. His effort to reduce to a formula the method of computing the value of good-will is not likely to prove very helpful in practical affairs because of the uncertain factors involved. However, the whole subject is worthy of more general study and Mr. Leake's brief paper provides at least a good starting point for further consideration.

J. E. STERRETT.

NEW BOOKS

- Addie, A. S. The perpetual inventory. (Chicago: Inland Trade Press Co. 1914. 50c.)
- Bennett, W. P. The history and present position of the bill of lading as a document of title to goods. (New York: Putnams. 1914.)
- Bentley, H. C., compiler. C. P. A. auditing questions to January 1, 1914. (New York: Ronald Press. 1914. Pp. 247. \$2.)
- Branders, L. D. Business. A profession. (Boston: Small, Maynard. 1914. Pp. lvi, 327. \$2.)
 - A collection of papers and addresses by Mr. Brandeis which have appeared in periodicals and newspapers. Among these are several on business efficiency. Others are entitled: "Incorporation of trade unions," "How Boston solved the gas problem," and "Savings bank

- insurance." There is a foreword of 50 pages by Ernest Poole giving a sketch of Mr. Brandeis' activity in public reforms, based upon an article in the American Magazine, for February, 1911.
- Bunting, H. S. The elementary laws of advertising and how to use them. (Chicago: Novelty News Press. 1913. Pp. viii, 188. \$2.)
- CALKINS, E. E. and HOLDEN, R. The business of advertising. (New York: Appleton. 1914. \$2.)
 A completely rewritten form of Modern Advertising.
- Childs, F. H. Principles of the law of personal property, chattels and choses. (Chicago: Callaghan. 1914. Pp. xv, 607. \$4.)
- Church, A. H. The science and practice of management. (New York: Engg. Mag. 1914. Pp. xviii, 535. \$2.)
- Eggleston, D. W. C. Municipal accounting. (New York: Ronald Press. 1914. Pp. 465. \$4.) To be reviewed.
- ESQUERRE, P. J. The applied theory of accounts. (New York: Ronald Press, 1914, Pp. xviii, 519.)

 To be reviewed.
- French, G. Advertising. The social and economic problem. (New York: Ronald Press. 1915. Pp. 258. \$2.)
- Fiske, A. K. Honest business. Right conduct for organizations of capital and of labour. (New York: Putnams. 1914. Pp. viii, 333. \$1.25.)
- Geijsbeek, J. B. Ancient double-entry bookkeeping. Lucas Pacioli's treatise (A.D. 1494—the earliest known writer on bookkeeping) reproduced and translated with reproductions, notes and abstracts from Manzoni, Pietra, Mainardi, Pmpyn, Stevin and Dafforne. (Denver, Col.: J. B. Geijsbeek. 1914. Pp. 182. \$5.)

 To be reviewed.
- Gerson, O. Organisation, Statistik und systematische Kontrolle in kaufmännischen Betrieben. (Hamburg: P. Babst. 1913. Pp. viii, 195. 8.50 M.)
- GOULD, G. B. The cost of power, a big business problem. (New York: Fuel Engg. Co. 1914. Pp. 125. \$2.)
- HARRISON, E. S. A Spanish commercial reader. (Boston: Ginn. 1914. Pp. 7, 238. 90c.)
- HAWKINS, G. H. E. Newspaper advertising, (Chicago: Advertisers Pub. Co. 1914. Pp. 119.)
- HERTEL, H. Bankers' scientific appraisal system for land and buildings. (Cleveland, O.: Bankers Appraisal Co. 1914. \$10.)
- Hoopen, W. E. Railroad accounts and accounting. (New York: Appleton. 1914. \$2.)
- KALLMAN, M. M. and others. Mercantile credits; a series of practical

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- lectures delivered before the Young Men's Christian Association of Los Angeles. (New York: Ronald Press. 1914. Pp. vi, 288. \$2.)
- LEAN, J. U. Practical brief figuring. (Chicago: Reilly & Britton. 1914. 25c.)
- Leichter, E. Successful selling. (New York: Funk & Wagnalls. 1914. Pp. 78. 50c.)
- Lewis, E. St. E. Efficient cost keeping. (Detroit: Burroughs Adding Machine Co. 1914. Pp. 256.) A third edition of Cost-keeping Short Cuts.
- MAXWELL, W. M. Salesmanship. (Boston: Houghton Mifflin. 1914. Pp. 233. \$1.)
- McKinney, F. C. Legal investments for trust funds. (New York: Trust Companies Mag. 1914. Pp. 324. \$3.)
- MINER, G. W. Bookkeeping; commission and general merchandise. (Boston: Ginn. 1914. Pp. 16. 25c.)
- NORTON, C. P. Handbook of the law of bills and notes. Fourth edition with appendix containing the negotiable instruments law. (St. Paul: West Pub. Co. 1914. Pp. x, 732.)
- ORWIN, C. S. Farm accounts. (Cambridge: University Press. 1914. 3s.)
- Parsons, F. A. The principles of advertising arrangement. (London: Pitman. Pp. 128. 6s.)
- Parsons, T. Laws of business for all the states and territories of the Union and the Dominion of Canada, with forms and directions for all transactions. Enlarged and revised edition. (Hartford, Conn.: Scranton Co. 1914. Pp. 952. \$4.50.)
- RACINE, S. F. Guide to the study of accounting. (Seattle: Western Inst. 1914. Pp. 76. \$1.)
- SMITH, D. Engineers' costs and economical workshop production. (London: Emmott & Co. 1914. Pp. xi, 248. 4s. 6d.)
- WHITTEN, R. H. Valuation of public service corporations. Supplement. (New York: Banks Law Pub. Co. 1914. Pp. xxvii, 799-1443. \$5.50.)
- The American business manual, including organization, manufacturing, advertising, buying, selling, granting of credit, and auditing. Revised and rewritten. Three volumes. (New York: P. F. Collier & Son. 1914. \$2.25.)
- Forms for savings banks and trust companies. (New York: American Bankers' Assoc. 1914. \$4.)
- "I, Edward Gilbert " a business episode in three scenes.

 (Toledo, Ohio: The Guardian Trust and Savings Bank of Toledo.
 1914. Pp. 44.)
- Pilman's facsimile company forms. (London: I. Pitman. 1914. 1s.)

- Rapid calculation; tablet method. (Battle Creek, Mich.: Ellis Pub. Co. 1914. Pp. 101. 32c.)
- Report of joint committee on valuation of Ohio public utilities under order no. 176 of the public utilities commission of Ohio, 1914. (Cleveland: A. J. Watt. 1914. Pp. 42, 50c.)
- Student's guide to accompany the Brandrup & Nettleton system of teaching bookkeeping and business practice. (Mankato, Minn.: Mankato Commercial College. 1914. Pp. xi, 255. \$1.50.)
- 1914 C.P.A. problems and solutions. Part 5, Colorado, Part 6, Missouri. (New York: Ronald Press. 1914. Pp. 128. \$1.)
- 1914 Year book of the American Association of Public Accountants.
 (New York: Ronald Press. 1914. \$1.60.)

Capital and Capitalistic Organization

The Policy of the United States Towards Industrial Monopoly.
By Oswald Whitman Knauth. Columbia University
Studies in History, Economics and Public Law, Vol. LVI,
No. 2. (New York: Longmans, Green and Company. 1914.
Pp. 233. \$2.00.)

The author has limited himself to a "purely objective" treatment of the trust policy of the federal government, as manifested in the activities of its three main branches, legislative, executive, and judicial. The first chapter, The Formation of a Policy, relates chiefly to the history in Congress of the Sherman antitrust bill. The second reviews the course of congressional debate and enactment on the subject of the trusts between 1890 and 1913.

If Dr. Knauth's selection of passages for quotation from this source have been judicious, our debates on the trusts must have been sad affairs indeed. Little is reported that possesses merit in substance. From a stylistic standpoint much is dismal in the extreme. The longest excerpt from debate given is a passage from a speech of Senator George, which has for its climax the assertion that the trusts "aggregate to themselves great enormous wealth by extortion, which makes the people poor." Not content, the senator repeats himself to the effect that a few men have been "enabled to aggregate to themselves large enormous fortunes," and our author contrives in his monograph to quote this sentence a second time (pp. 23 and 25), meanwhile maintaining an attitude so "objective" that he never pauses to tell us he is sorry this is

an appropriate specimen of congressional discussion. It would appear that Senator Teller's chief contribution was the following, for "Senator Teller closed the debates for the day, giving a statement of the wrongs of the trusts" (p. 24). Said Senator Teller:

There is not a civilized country anywhere in the world that is not more or less cursed with trusts. A trust may not always be an evil. A trust for certain purposes, which may simply mean a combination of capital, may be a valuable thing to the community and to the country. There have been trusts in this country that have not been injurious. But the general complaint against trusts is that they prevent competition.

Somehow Senator Teller's summary lacks punch. But enough of this, since the reviewer is uncertain whether his grievance runs wholly against the statesmen of the nineties or partly against Dr. Knauth.

Arguments regarding the constitutionality and the probable construction of the proposed statute are given brief mention by Dr. Knauth, but an air of triviality and inconsequence floats over the whole history, and the reviewer's criticism is frankly this, that the reader of this monograph, who is interested in the history of the federal anti-trust policy, is likely to conclude that his obligation to make an independent study of the record is unrelieved by the labors of Dr. Knauth.

The last two chapters, the most important of the book, review the decisions of the Supreme Court and give a concluding "analysis of government policies." Much of the subject-matter here is of a difficult and advanced legal nature, and the reviewer can only say, speaking for himself, that the monograph in hand falls far short of inspiring confidence. In the end, Dr. Knauth states:

It is concluded, therefore, that the government shows no evidence of ever having undertaken seriously a study of the trust problem, such as would be necessary for the formation of a definite and enlightened policy. Broadly speaking, Congress has accomplished nothing of note since the passage of the act of 1890; the Executive has been largely impotent; and the Supreme Court, while displaying a growing, and finally well nigh complete, grasp of the economic problems involved, has, because of limitations inherent in its nature and functions, been unable to cope in a constructive way with the vast problem which confronts the country.

A. C. WHITAKER.

Leland Stanford Jr. University.

NEW BOOKS

- Brown, W. J. The prevention and control of monopolies. (London: Murray. 1914. Pp. 218. 6s.)
- Gesell, G. A., compiler. Minnesota public utility rates. (Minneapolis: Extension Division of the University of Minnesota. 1914. Pp.
 - 254. 25c.) The report gives comparative data as to the charges for gas, electricity, and water in the towns and cities of Minnesota. Much reliance has been placed upon comparative rates, entire schedules often being copied from neighboring cities. For electricity the metered rate is in general but not exclusive use, the rates being either uniform for all quantities used or lower for increased consumption. "Demand schedules" which base the charge largely upon the number of the consumer's connections and which are in wide use in Wisconsin are seldom found. Gas is sold by the meter method exclusively. Water is still sold largely at a flat rate. An important explanation of this fact is the severity of the Minnesota winters, making it often necessary to permit water to run to prevent freezing in the pipes. Nearly all the water plants are municipally owned, but many do not make a charge to the city for fire protection. The rate schedules vary so much in form and detail that it was impossible to present them in the form of tables or R. E. HEILMAN. to make general comparisons.
 - Hammerbacher. Die Konjunkturen in der deutschen Eisen- und Maschinengrossindustrie. Ein Beitrag zur Theorie und Praxis der Konjunkturen unter hauptsächlicher Berücksichtigung der Zeit von 1892-1911. (Munich: Oldenburg. 1914. Pp. 120. 4 M.)
 - Haney, L. H. Business organization and combination. Revised edition. (New York: Macmillan. 1914. Pp. 523. \$2.)
 - Two chapters have been added, Development and Organization of the International Harvester Company and The Seaman's Act and its Interpretation.
 - INSULL, S. Centralization of power supply. (Chicago: Sherman & Co. 1914. Pp. 47.)
 - JORDAN, H. W. Private companies; their utility and the exemptions they enjoy. (London: Jordan & Sons. 1914. Pp. 39.)
 - JUDSON, K. B. Government ownership of the telegraph and telephone.
 (White Plains, N. Y.: The H. W. Wilson Co. 1914. \$1.)
 - TAFT, W. H. The anti-trust act and the Supreme Court. (New York: Harper. 1914. Pp. 133. \$1.25.)
 - WARNE, F. J. Intercorporate railway stock ownership and interlocking directorates of the railroads of the United States. (Washington: F. J. Warne. 1914. \$50.)
 - Prepared for the Order of Railway Conductors and the Brother-hood of Railroad Trainmen,

1915]

Federal trade commission law. (Washington: Lowdermilk. 1914. Pp. 42. 50c.)

State regulation of public utilities. (Philadelphia: Am. Acad. Pol. & Soc. Sci. 1914. Pp. 300. \$1.)

Labor and Labor Organizations

The Occupational Diseases. Their Causation, Symptoms, Treatment, and Prevention. By W. Gilman Thompson. (New York: D. Appleton and Company. 1914. Pp. xxvi, 724, illus. \$6.00.)

Increasing demand for information upon industrial hygiene and occupational diseases in America has resulted in the appearance of this work. It is written by a prominent medical authority and is the first comprehensive book upon the subject to be pub-

lished in this country.

It is of textbook type, with 118 excellent illustrations. There are 160 pages devoted to a general discussion of pathology, etiology, prophylaxis, and treatment, after which the author classifies the various diseases due to irritant substances according to his well-known scheme under such headings as (1) metals, (2) gases, (3) fluids, (4) dusts, (5) germs, and (6) miscellaneous. There is next discussed diseases due to harmful environment. as subjection to compressed air, temperature extremes, and light About 100 pages are devoted to occupational modifications. diseases as they affect the various organs, special senses and parts, with a page or two upon alcoholism, syphilis, foods, drugs, and tobacco. About 50 pages are devoted to special industries and processes in relation to occupational diseases. The book ends with four appendixes, the first of which is a modification of Sommerfeld and Fischer's "List of Industrial Poisons," in abbreviated form, with certain additions.

The book is rich in references to the literature which is accumulating upon the subject, both American and foreign, and contains abstracts. The author cites many incidents in his own experiences, particularly in connection with his hospital and dispensary practice in New York City.

An idea of the vastness of this subject can be obtained from the fact that as extensive as this book is there are a great many industries and important trade processes which are not touched upon. Others are mentioned only in a partial way; for instance, such trades as those of polishers, buffers, grinders, carpenters, wood-workers, etc.; important trade processes, such as tinning, galvanizing, brewing, forging, etc.; important industries, such as oil refining, lime burning, confections, ice manufacturing, baking, porcelain-enameled ironware, etc. Again, there is hardly any mention made of the following; chemical workers, rubber manufacturing, dry cleaning, iron and steel furnacing processes, electroplating, etc. In the above respects the index is partly at fault. None of the last 40 pages, composing the appendixes, are contained in the index, while the arrangement adopted, although systematic and clear in the author's mind, renders it difficult to find certain specific information which the appendixes and the book contains. There are many repetitions and a considerable scattering of information, due to overlapping in the plan adopted for arranging the subject-matter. A number of repetitions are also to be seen in the table on pages 198-200.

Inaccuracies of context are few, but some are noticeable, such as the volatilization point for copper (237° F.) on page 169, and the impression that brick and tiles (other than art-ware) are usually lead-glazed, pp. 618-619. There is great confusion between industries and trade processes, as on pages 696-699. This fault, however, pervades practically all statistics, hospital and dispensary records at the present time, and renders them quite worthless as a source of industrial information which might exactly correlate the health hazards of trade processes with the afflictions at hand. One feels that relatively too much space has been devoted to certain subjects—as compressed air illness (32 pages)—to the sacrifice of other important industries and trade processes, such as mining (6 pages), shoemaking (3 pages), and brick and tile manufacture (½ page).

The book is not as well adapted to the needs of the interested manufacturer, the practicing physician, the clinician, and the student of hygiene as it is to the physiologist, toxicologist, and pathologist. The introduction implies that it is the object of the book to meet both classes. It is excellent on occupational diseases, but deficient on many important health hazards, industries, and trade processes.

Columbus, Ohio.

E. R. HAYHURST.

Industrial Home Work in Massachusetts. Labor Bulletin No. 101. (Boston: Bureau of Statistics. 1914. Pp. 183.)

That work at home on factory products is not limited to large cities, nor to the clothing trade, nor to the immigrant population is revealed by this study of industrial home work in Massachusetts. To make the investigation possible, the Women's Educational and Industrial Union of Boston loaned three of its research fellows (Mrs. Margaret Hutton Abels, Miss Margaret S. Dismorr, and Miss Caroline E. Wilson) for a period of nine months to work without cost to the state, under the authority of the Bureau of Statistics of Massachusetts. The inquiry was planned and directed by Dr. Amy Hewes, secretary of the Massachusetts Minimum Wage Commission.

The report consisted of a summary of the findings by Dr. Hewes and detailed accounts by the field agents of the conditions found in each industry. A preliminary survey showed that home work was so widely distributed in so many industries that its extent could be measured only by a census so complete as to be impossible with the resources available. The inquiry, therefore, was limited to the groups of industries in which the system appeared to be most general, namely, wearing apparel, including several distinct trades, jewelry and silverware, paper goods, sporting goods, celluloid products, and a few miscellaneous occupations. Employers to the number of 831, a large majority of all those listed in these industries in the directory of manufactures of the Bureau of Statistics, were circularized and most of those who reported home work were interviewed. A study was also made of their pay-rolls for an entire year. A fair proportion of the workers, 2409, were investigated at home. Of the 284 establishments found to be giving out home work, 134 were thoroughly studied, and on the basis of the pay-roll statistics it was estimated that these 134 shops employed 20,075 home workers in the course of the year.

It is the general conclusion of the report that home work in Massachusetts appears not to be characterized by such serious evils as have accompanied it elsewhere, but this statement is coupled with a warning to the state not to be too complacent in its attitude toward it. The chief difference between the system in Massachusetts and elsewhere seems to be that conditions in the homes investigated were not such as to menace the public health through the possible spread of disease. The economic evils are summed up by saying that "home work in Massachusetts is an extremely low-paid form of occupation, involving frequent and prolonged periods of non-employment, and conspicuous on account of the young children of school age who have, hitherto at least,

shared in this employment." Of those on the pay-rolls nine months or longer, only 4.1 per cent earned \$300 or more during the year, while 59.5 per cent earned less than \$100. Less than half of the workers interviewed were employed as long as nine months in the year. Of all whose ages were reported, approximately one in five was under fourteen. It should be noted that since the investigation a law has been passed prohibiting the employment of children under fourteen in home work. Naturally families cannot be supported on the wages received by the great majority of home workers. Only 36 of the 1450 families studied were wholly dependent upon their earnings from this source. The family budget is made up chiefly from wages of workers in occupations outside the home.

Those who are familiar with the difficulty of securing precise and accurate information about so casual and chaotic an occupation as home work will be inclined to question the reliability of some of the data presented, notably concerning hourly rates of pay and the annual family earnings from all sources. The hourly rates are interesting as a tentative estimate, but should not be taken too seriously. As for annual income from all the occupations represented in these families, it is obvious that with so limited a force the number of visits possible in each household must have been too few for more than a rough guess on this important point.

Perhaps the most noteworthy impression made by the detailed reports in the different industries is that the labor supply for this form of employment seems to be so abundant. It is casual labor of a pronounced type. As an integral part of so many trades, its effect upon the task of regularizing industry and steadying the seasons challenges the most serious attention of all who are interested in the problem of irregular employment.

MARY VAN KLEECK.

American Labor Unions. By Helen Marot. (New York: Henry Holt and Company. 1914. Pp. ix, 274. \$1.25.)

The purpose of the author in writing this book, according to the preface, was "to give the labor-union point of view of labor-union policies and methods," that is, "the views of each organization and their own reasons for their line of action." Miss Marot has had unusual opportunities to appraise sympathetically these methods and policies. She is a member of one of the local unions of the

American Federation of Labor, and from 1905 to 1913 was the executive secretary of the Women's Trade Union League of New York. The book, however, has gained little if anything from this intimacy of contact. On the contrary, the treatment is even more general and remote than the ordinary academic handling of the same questions.

The field marked out for survey is a large one and it is not surprising to find that the author has not covered it all. The "methods and policies" discussed are almost entirely those which relate to the form of organization and to the means of enforcement. In only two of the twenty chapters—those on limitation of output and scientific management—are the policies of trade unions in regulating industry discussed and there only in the briefest and most superficial fashion. The reader will, therefore, find no information on such questions as the standard rate, the regulation of apprenticeship, or the forms of collective bargaining.

The first three chapters aim to distinguish in a general way the leading principles of the American Federation of Labor, the railroad brotherhoods and the Industrial Workers of the World. The remaining chapters discuss various means of enforcement, such, for example, as the union shop, the union label, sabotage, direct action, and legislation, or deal with more general questions, e.g., the conflict between labor and the courts, and violence.

The chapters appear to have been strung together with little if any consideration of their relation to each other. The result is a collection of disconnected little essays on trade union questions rather than a book. Favorable exception should be given to one chapter, that on philanthropy and labor unions. The distinction there made between the aims of the movement for social reform and those of the labor movement is both acute and convincing. The book will be convenient for the general reader who desires a general view of some of the more important controversies which now agitate the trade union world.

GEORGE E. BARNETT.

Railway Conductors. A Study in Organized Labor. By Edwin Clyde Robbins. Columbia University Studies in History, Economics and Public Law, LXI, 1. (New York: Longmans, Green and Company. 1914. Pp. 183. \$1.50.)

The activities of the railway unions have been treated incidentally in cross-sectional studies of particular problems, but for

the first time a longitudinal study of the government and policies of a single railway brotherhood is presented.

The monograph is divided into three parts. Part I includes a brief and rather empirical chapter on the complicated problem of trade union government, another on jurisdictional disputes with other organizations, and a chapter on federation, which records the unsuccessful efforts to maintain alliances between railway brotherhoods.

Part II gives an interesting discussion of trade regulations and their enforcement. Recently the wages of railway employees has become a matter of public importance because the railway companies have used the increase secured by railway unions as one of their arguments for higher transportation rates. Conductors' wages have increased 35 per cent since 1897. The tendency to establish uniform wages for the same work on all railway systems is indicated and the attitude of conductors and railway officials toward further increases is presented. The Order of Railway Conductors has been a party to various controversies successfully settled by mediation or arbitration under the federal law. The weakness of voluntary arbitration revealed in these and other disputes has stimulated discussion concerning the desirability of compulsory arbitration in industries charged with a public interest; but, as the author points out, the conductors oppose compulsory arbitration, which would destroy, they think, the organization through which they have achieved success.

In establishing insurance systems for relief of members, this organization has been a pioneer among American unions. Part III describes its experiences with mutual benefits. There has been a gradual evolution from crude and faulty methods to those which conform in some degree to scientific insurance principles, though the industrial and fraternal aims of the organization prevent the attainment of full scientific precision.

Quite a few topics have been omitted, but the ones discussed are probably the most important, and the information given is presented in a clear and logical manner.

THEODORE W. GLOCKER.

University of Tennessee.

Die Berufsvereine. I. Geschichtliche Entwickelung der Berufsorganisationen der Arbeitnehmer und Arbeitgeber aller Länder. By W. Kuleman. Second edition. Three volumes. (Berlin: Leonhard Simion Nf. 1913. Pp. xxiv, 560; viii, 551; vii, 336. 30 M.)

In these three volumes the author has attempted the monumental task of writing the history of the trade union movement in all countries. Three previous volumes had already been devoted to their development in Germany. The following countries are here covered: England, France, Belgium, Holland, Luxemburg, Denmark, Sweden, Austria, Hungary, Switzerland, Italy, Spain, Russia, Finland, Servia, Bulgaria, Roumania, United States of America, Canada, Argentina, Australia, New Zealand, and Japan. As it was manifestly impossible for one man to become an authority on the subject in all the countries under consideration, the author secured the assistance of co-workers in each country. For the United States, H. Fehlinger of Munich and Schall of Stuttgart coöperated; the former was also adviser for Canada, Australia, and New Zealand.

The work is an external history of trade unionism; "a collection of autobiographies of the organizations treated." No attempt is made to trace the development of thought or to describe internal organization. Since he confines himself to the external history of labor organizations the author is frequently led to lay undue emphasis upon individuals or sporadic movements which momentarily attract public attention, such as Debs, the Chicago anarchists, etc. He, also, influenced no doubt by German experience, attaches undue weight to the socialist movement and to the political labor movement, neither of which have had the influence upon trade union development in this country which is here attributed to them.

In his description of the trade union movement in the United States, to which we may confine ourselves, Mr. Kuleman devotes over one fifth of his hundred pages to the geography, form of government, and history of the country, some of which knowledge might have been taken for granted. The economic background, so necessary for an understanding of the various movements, is practically lacking; the few pages devoted to "industrial-social conditions" deal for the most part with political corruption. To supply this lack in all the countries would have swelled the work beyond the ability of one man to compass, but its absence nevertheless detracts from the value of the book. The information is drawn wholly, in the case of the United States, from written sources; all of those quoted are secondary, and 19 out of 32 are

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German publications. Consequently the work is not based on a personal first-hand acquaintance with either the conditions under which the movement has proceeded or with the leaders. It is a closet study.

The wonder is that under these circumstances so few mistakes have crept into the narrative. Statements of fact are in general correct; it is chiefly in matters of emphasis and selection of facts that one would differ from the author. The book is quite objective and constitutes a sort of encyclopedia of the external history of trade unionism. It will doubtless be useful for those who wish to inform themselves briefly as to what has been done in other countries,

E. L. BOGART.

University of Illinois.

NEW BOOKS

BAUER, S. Das Existenzminimum in Recht und Wirtschaft. (Vienna: Manz'sche Buchh. 1914. Pp. 24.)

Brown, R. G. The minimum wage. With particular reference to the legislative minimum wage under the Minnesota statute of 1913. (Minneapolis: Review Pub. Co. 1914. Pp. xv, 98. \$1.)

Essentially, this is a brief prepared for the purpose of demonstrating the unconstitutionality of the Minnesota minimum wage law. The author founds his case in part on alleged special defects of the Minnesota law, in part on considerations that would apply to any compulsory minimum wage law. In particular, the author holds that the power to enact a minimum wage law is not included within the police powers of a state legislature, and cites with approval a dictum of the supreme court of Indiana (Street v. Vancy Electrical Co., 160 Ind. 338) to the effect that "legislation which interferes with the operation of natural and economic laws defeats its own object, and furnishes to those whom it professes to favor few of the advantages expected from its provisions."

More interesting to the economist is the author's discussion of the comparative merits of the different minimum wage laws that have been enacted in this country. He is least opposed to the Massachusetts law, because in his judgment this act "recognized the fact that the principal efficacy of legislation is the promotion of coöperation in the effort to raise wages, and that a drastic compulsory act would result, not only in consternation among employers, but also in discrimination and even disaster to business. . . . " (p. 36).

Any one who is sufficiently interested in the minimum wage to read this book should not fail to examine the appendix to the briefs filed on behalf of respondents in the case of Settler v. Industrial Welfare Commission of the State of Oregon, prepared by Louis D.

Brandeis, assisted by Josephine Goldmark, publication secretary of the National Consumers' League.

A. N. HOLCOMBE.

- CHAPMAN, S. J. Work and wages. In continuation of Lord Brassey's "Work and Wages" and "Foreign Work and English Wages." Part 3, Social betterment. (New York: Longmans. 1914. Pp. viii, 382. \$3.) To be reviewed.
- HILLS, J. W. and others. Industrial unrest, a practical solution. Report of the Unionist Social Reform Committee. (London: Murray. 1914. Pp. viii, 39. 6d.)
- Lennard, R. Economic notes on English agricultural reages. (New York: Macmillan, 1914. Pp. ix, 154, \$1.40.)
- LEVINE, L. Labour and social revolution in the United States. (New York: Huebsch. 1914. \$1.50.)
- Suffern. Conciliation and arbitration in the coal industry of the United States. (Boston: Houghton Mifflin. 1914.)
- WRIGHT, A. Disturbed Dublin. The story of the great strike of 1913-14, with a description of the industries of the Irish capital. (London: Longmans. 1914. Pp. 350. 3s. 6d.)
- Compulsory arbitration of labor disputes on interstate railroads, Constructive and rebuttal speeches of the New England Triangular League debates, 1914. (White Plains, N. Y.: H. W. Wilson, 1914. Pp. 114. \$1.)
- Compulsory minimum wage scale. Constructive and rebuttal speeches of the representatives of Parsons College, Fairfield, Iowa, in triangular debates with Leander Clark and Penn Colleges, 1914. (White Plains, N. Y.: H. W. Wilson. 1914. Pp. 54. 50c.)
- History of the Westinghouse strike, East Pittsburgh, Pa., the greatest struggle ever waged between capital and labor. (Turtle Creek, Pa.: Foley & Pierce. 1914. Pp. 133, illus.)
- Labour protection in metalliferous mines and quarries. Second report of the Royal Commission on Metalliferous Mines and Quarries. (d. 7476-8. Three volumes. (London: Wyman. 1914.)
- Minimum wage. Constructive and rebuttal speeches of the Chicago representatives in the Central Debating League, 1914. (White Plains, N. Y.: H. W. Wilson. 1914. Pp. 51. \$1.)
- Report on strikes and lock-outs and on conciliation and arbitration boards in the United Kingdom in 1913, with comparative statistics. Cd. 7658. (London: Board of Trade. 1914. Pp. 1, 232.)
- Arbeits- und Lebensverhältnisse der Frauen in der Landwirtschaft. Nos. 4, 5, 6. Schriften des ständigen Ausschusses zur Förderung der Arbeiterinnen-Interessen. (Jena: Fischer. 1914.)

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Money, Prices, Credit, and Banking

Why Is the Dollar Shrinking? A Study in the High Cost of Living. By Irving Fisher. (New York: The Macmillan Company. 1914. Pp. xiv, 223. \$1.25.)

The rise in the general price level since 1896 has caused no little excitement and brought out many superficial and some fallacious explanations. Professor Fisher, keenly alive to the dangers of false logic, is striving diligently to educate the public in monetary matters and to show the underlying cause for past and present price changes. Why Is the Dollar Shrinking? is another forceful book from his facile pen on the relation between the quantity of money and prices.

After clearing the ground by preliminary description of wealth, property, and money, the author launches his main argument on the reason for price changes by way of the price equation, MV + M'V' = PT. Chapters on Bank Deposits Subject to Check, Remote Influences on Prices, Can Other Things Remain Equal? and The History of Price Levels show that all other factors operate through the amount of money in circulation, the amount of bank deposits and the volume of trade, and that all factors tend to concentrate upon the amount of money in circulation or the volume of trade. All the known factors tend toward an increase of the general price level with the exception of those factors which bring an increase in the volume of trade. In general, the situation today is such that "the means for conducting trade have outrun the volume of trade to be conducted thereby" (p. 189). Inflation of money and credit explains the changes in price levels (p. 182); and due to this inflation prices have tended to increase during the last ten centuries. In his concluding chapters Professor Fisher points out the fallacies in present-day reasoning on the subject of prices, and ventures on certain predictions in regard to the future trend of prices.

Although the author is very careful at certain stages in his argument to show that back of the price equation is the standard of value, gold (p. 113, 169, and 190), yet at many points he seems to lay undue emphasis upon his algebraic formula (p. 88, 182, and 189). It is pretty clear that inflation causes an increase of prices, but this inflation is caused by an increase in the supply of the standard metal and a consequent decline in its purchasing power. It would seem that MV + M'V' = PT is as

correct in the explanation of general price levels as the generality "demand and supply" in that of single commodity prices. Neither explains much in and of itself, but both are correct provided the underlying forces are brought to light. Thus, the price equation is true when its dependence upon the gold supply and the volume of trade has been made clear. From the money side gold is all important, but gold is a commodity, a part of wealth, and its value, i.e., its purchasing power, is determined not alone by its quantity but to some extent by the composite demand for gold (the arts and money demand). Taking human nature as it is, one doubts whether mere quantity of money units would have any effect upon prices if considered apart from the standard commodity.

The reader is a bit skeptical when he comes to Professor Fisher's exact predictions in respect to future price changes. Indeed, it is a very difficult thing to reduce to an exact mathematical basis such a complex of conditions as are presented in the author's analysis of remote influences. To assume on the basis of even well-known past facts that trade is likely to grow by $4\frac{1}{2}$ per cent a year, money by $6\frac{1}{2}$ per cent, and therefore that money will outstrip trade by 2 per cent per annum (p. 220), seems rather dubious. So far as the reviewer is aware there has never been a case, except in pure theory, where the general price level changed proportionately to the quantity of money units in circulation. Again, the tendency of prices for the next ten or twenty years may be upward, but here we are in the uncertain field of scientific guesswork.

The book is clear in statement, concise, and well arranged. It is delightful to pick up a treatise on a difficult subject like the relation of money to prices and find the author presenting his argument with great clearness and in a literary style so simple and direct that it holds the reader's attention from the first page to the last.

EVERETT W. GOODHUE.

Colgate University.

Essays on Banking Reform in the United States. By Paul M. Warburg. (New York: The Academy of Political Science. 1914. Pp. 228. \$1.50.)

This book contains eleven essays written at different times since January, 1907, and published in various newspapers and periodicals, together with an introduction by Professor E. R. A. Seligman of Columbia University. They are entitled respectively: Defects and Needs of Our Banking System; A Plan for a Modified Central Bank; American and European Banking Methods and Bank Legislation Compared; A Central Bank System and the United States of America; A United Reserve Bank of the United States; Principles that must Underlie Monetary Reform in the United States; The Discount System of Europe; Circulating Credits and Bank Acceptances; The Owen-Glass Bill as Submitted to the Democratic Caucus; The Owen-Glass Bill: Should there be Four or Eight Federal Reserve Banks; The Owen-Glass Bill: Gold or Lawful Money, Note Issue, and Government Bonds.

As might be expected of papers written on the same general topic for different audiences at different times, there is much repetition in these essays, but this fact does not detract from their interest and value. The repeated items are frequently approached from different viewpoints and thus gain in clearness and completeness of exposition. A comparison between the earlier and the later papers reveals some changes in opinion, or rather in emphasis, regarding relatively unimportant matters, but in the main the author has consistently held to the same views throughout.

According to his view the chief defects in our banking system are: the form of our commercial paper which renders it unsalable outside of the local market in which it originated, and consequently, when purchased by a bank, ties up the funds invested in it until the maturity of the paper and frequently much longer; the forced dependence of our banks for liquid investments on call loans based on stock exchange securities; the absence of any national market for commercial paper even of the proper form; bond secured, inelastic bank notes; scattered reserves; out-of-date usury laws; and daily settlements at the New York Stock Exchange. No writer has described these defects with greater clearness or in a more convincing manner.

The remedies which he prescribes are: a change in the form of our commercial paper from single-name promissory notes to billof exchange in the form both of bank acceptances and endorsed 1915]

trade bills; the creation of a market for such paper through the organization of an agency for rediscounts, preferably a central bank; the concentration of note issues in the hands of the rediscounting agency and the issue of such notes against rediscounted commercial paper; the speedy retirement of our bond secured national bank notes; the concentration of the cash reserves of the country into a central reservoir to be administered by the central rediscounting agency; the amendment of our usury laws so that in the open money market rates may be determined by the law of demand and supply; and the substitution of weekly, or possibly even less frequent, settlements for the daily settlements now practiced on the New York Stock Exchange. The significance and advantages of these remedies are also expounded with great clearness and convincing power.

Inasmuch as our new banking law recognizes most of the defects in our system which Mr. Warburg points out and adopts in whole or in part most of the remedies he prescribes, and inasmuch as Mr. Warburg has been made a member of the Federal Reserve Board which is to administer the new system, the chief interest of the public in this book at the present time will doubtless be concerned with the last three essays in which Mr. Warburg vigorously criticises some of the features of the law which he is now called upon to administer. Among these are: the large number of federal reserve banks; the making of the federal reserve notes obligations of the United States; the requirement that the federal reserve banks must keep against the notes advanced to them by the Federal Reserve Board reserves of gold instead of lawful money; the possible retention of the national bank notes for a generation or longer; the authorization of the issue of bond secured notes by the federal reserve banks; the permission to tax the federal reserve notes; the requirement of minimum cash reserves of the member banks; and the failure so to constitute the Federal Reserve Board that a majority of its members are constantly in actual touch with the banking operations of the country and out of the reach of political influences.

On the subject of the proper number of federal reserve banks Mr. Warburg's convictions are, or at any rate were, strong. According to his view a central bank is the ideal to which we ought to approximate as closely as possible. Four regional banks might be made to function properly, but more than that number he

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considers dangerous. He concludes the discussion of this subject in the tenth essay here published with the following words:

But nothing will change my profound conviction that a system of eight federal reserve banks, as now proposed, will end in failure. An effective discount rate is the link between the lever and the brake. Without an effective discount rate no European central bank would be able to stand. With eight independent districts (and even with six) no discount market can possibly develop. The safety of the system will be lacking, the member banks' funds will remain largely, as before, in the New York Stock Exchange (p. 218).

On the other points his convictions are also strong and his arguments vigorous, though, with the possible exception of the last, he does not consider them so vital as this one. He does not object to government control per se, but he does object to the presence of cabinet members on the board of control and to the absence from the board of control of governors of the federal reserve banks or of other persons in actual administrative contact with those banks' daily operations. In his judgment no board sitting at Washington and only in indirect and long range contact with the federal reserve banks which are doing the actual business can properly administer the system, no matter how able and patriotic its members may be. In his judgment an advisory council is an inadequate substitute for a board, a majority of whose members are in direct, personal, every-day contact with the business itself.

Mr. Warburg's acceptance of an appointment on the Federal Reserve Board would seem to indicate that his views on these vital points have changed somewhat since these essays were written. No one will believe that he would accept responsibility for the administration of a system which he believes is foredoomed to failure. In these essays he has manifested a commendable spirit of conciliation and a clear recognition of the fact that an ideal system cannot be attained at once. Probably he has come to feel that the federal reserve system established by the act of December, 1913, is an important first step in advance and that it is capable of successful administration. The reading of this book will confirm and strengthen the conviction which is widespread that Mr. Warburg is admirably fitted for the important position he occupies and will give the public confidence that the new system will be administered in such a manner as to make it as efficient as possible in the work of reforming our banking system.

University of Wisconsin.

WM. A. SCOTT.

1915]

The Development of Banking in Illinois, 1817-1863. By George William Dowre. University of Illinois Studies in the Social Sciences, Vol. II, No. 4. (Urbana: The University of Illinois. 1913. Pp. 181. \$.90.)

Four periods in the early banking history of Illinois are here distinguished: The Territorial Banks, whose origin was in response to the clamor for money due to the wave of speculation which reached Illinois with the influx of settlers after the War of 1812, and whose wild cat existence, terminating with the crisis of 1819, had much to do with "the subsequent unpopularity of all moneyed institutions" in the state; Banking as a State Monopoly, 1821-1825, which venture in "a community hopelessly in debt" was "doomed to failure from its very birth," and narrowly missed involving the state in repudiation; Banking and Internal Improvements, culminating in 1837, an equally disastrous venture of the state into bank ownership; and The Free Bank System of Illinois, beginning in 1851 and ending with the collapse of the state stock banks in 1861, when the southern state bonds deposited by the banks suddenly depreciated. In each period the author traces a distinct cycle of events: an urgent demand for money on the part of a needy community results in a law providing for a large issue of poorly safeguarded paper; a brief period of fictitious prosperity largely due to speculation follows, ending in a crisis which causes suspension and collapse; then come hard times and the growth of a strong anti-bank sentiment, only to be followed shortly by the beginning of the next cycle.

The volume is an important contribution to the detailed history of banking and currency in the United States. The material is drawn from original sources; the numerous footnotes are kept up with commendable care; and a four-page bibliography is appended. The necessary use of state documents has not resulted in dry presentation, for they have been checked up, supplemented, and enlivened by constant reference to early newspapers, letterbooks, memoirs, biographies, and local histories. Instead of relegating the financial statistics to the appendix, the plan has been followed in each chapter of bringing together and analyzing a number of representative balance sheets of the banks treated in the chapter. Only two or three pages are given to private banks, such as that of George Smith, but the author remarks that,

as a whole the record made by the private banking institutions of this period, notwithstanding the illegality of the note issues of some of them, is very much more creditable than that made by the elaborately safe-guarded state institutions.

Some defects of the work are: the lack of section headings; the absence of any comparison of the number, capital, or circulation of the banks with the population of the state in either period, and of any discussion of the profits and dividends of the banks; inadequate treatment of the methods and results of bank taxation (p. 120); and, finally, that the history of the Illinois banks is treated in a somewhat isolated fashion. It might have been connected more closely with the general economic history of the state and with similar movements in other states. Illinois banking history is simply one phase of a wider movement. Frontier conditions account for much of the bad banking throughout the West and South before the Civil War, and the frontier was not always west of the Alleghanies.

C. C. HUNTINGTON.

Ohio State University.

Recherches sur la Théorie du Prix. By Rudolf Auspitz and Richard Lieben. Translated from the German by Louis Suret. (Paris: Giard et Brière, 1914. Pp. 371 and an album of 84 diagrams, 15 fr.)

To those of us who have read, and therefore admired, the original of which this is a translation, it is a great satisfaction to know that this book has at last appeared in the "Bibliothèque Internationale d'Economie Politique," even if, because of the war, its readers at present will be comparatively few.

The subject-matter of the French edition is identical in every substantial respect with that of the original German edition of 1889. In that year Richard Lieben, a Vienna banker, and his cousin, Rudolf Auspitz, published Untersuchungen über die Theorie des Preises, which the reviewer has no hesitation in calling a very brilliant monograph. It was tardy in receiving the recognition it deserved, chiefly, it would seem, because many readers, on opening the book, were frightened away by the formidable appearance of the diagrams. To the uninitiated these diagrams look more complicated than they really are, especially as each diagram contains two sets of curves distinguished by two separate colors. As a matter of fact, however, the diagrams are all fashioned on the same pattern, and, once this pattern is understood, they will be found to be both simple and helpful. The nature of the

diagrams is carefully set forth at the outset. The supply and demand curves are similar to the ordinary Fleeming Jenkin supply and demand curves only in that the abscissa, or longitude, represents the quantity (demanded or supplied) of the particular good; but they differ from the Fleeming Jenkin curves in that the ordinate, or latitude, represents, not money price per unit, but aggregate price, i.e., the total money for which the quantity represented by the abscissa would be demanded or supplied. It follows that the prices per unit are represented not by lines but by the slopes of lines drawn from the origin to points on the curves. A "steep" price is represented by a steep slope. The demand curve is a "derivative" of another curve having the same abscissa but ordinates representing total utility measured in money. Similarly the supply curve is a derivative of another curve having the same abscissa but ordinates representing total cost measured in money. Excepting some mathematical appendices there is nothing in the book which the nonmathematical reader could not read without difficulty.

The book does not aim to give a complete and general theory of prices but only to present a clear and perfect picture of how the price of an individual commodity is determined under certain restricted and ideal conditions. Among these conditions is that the marginal utility of money is constant. The object of this hypothesis is to make possible the measurement of all utility in

money units.

In the restricted field to which the book is devoted, namely, the intensive study of the causation and variation of an individual price, it is undoubtedly the best in the field; and its conclusions, under the hypotheses assumed, are unassailable. These conclusions include, among the fundamentals, the "Austrian" theory of value that, on the demand side, the price harmonizes with marginal desirability; and, on the supply side, the sinfilar Ricardian theory that the price harmonizes with marginal cost; they include also the principle that both consumer's and producer's "rent" or surplus, measured in money, is a maximum, as well as various other principles, some general and familiar, others special and unfamiliar. They include a few interesting studies of the effect of taxes and other influences on prices.

The chief value of the book consists, however, not in its conclusions but in its method, which is one of rigorous scientific reasoning. The writer of the present review takes this opportunity to acknowledge his own keen sense of obligation to the original book to which in fact he owes his first real stimulus to the serious scientific study of political economy.

IRVING FISHER.

The Nation's Wealth. Will It Endure? By L. G. CHIOZZA MONEY. (London: Collins Clear-Type Press. 1914. Pp. 264, 1s.)

The argument is as follows: An agricultural country cannot be a rich country. By "rich" the author means populous and having much circulating capital as compared with other countries. The condition of riches since the Industrial Revolution has been the possession of an abundant source of cheap power. At present this means coal. Only three countries, exclusive of China, meet this condition, namely, Britain, Germany, and the United States. Hence the industrial leadership of these three and the rapid rise of the latter two. Britain's success in competing with them depends upon her coal supply, but also, and increasingly, upon other elements, especially upon the accumulated capital built up during her long privileged position and upon her mercantile marine. Without the means to maintain her income from abroad through the profits from her manufacture of foreign raw materials and through the services of her ships, her wealth and population must decline. She must therefore prepare for a less favorable situation as to the cost of coal; and so must provide technical education and take better care of the physical qualities of her people. In most of this argument, obligation to Jevons is evident, and it is acknowledged.

But an examination of present wealth and income (continues the argument) shows only £25 per capita per year before distribution. Even a thoroughgoing redistribution of income would not make possible a proper standard for all. Hence the national activities must be directed towards increasing the national income as well as towards making more effective the existing amount. That private enterprise will not take the long and large view, and that it is therefore inefficient, is illustrated by the conduct of the railroads. That the government needs to wake up to its larger task is illustrated by its failure to develop a conservation policy. National application and administration of savings is advocated on grounds of efficiency. The conclusion is thus collectivistic, or is perhaps better described as nationalistic, in an economic sense. The author to a considerable extent restates ideas developed in his Riches and Poverty.

The discussion of national wealth and income is of much statistical interest. Aggregate wealth and income are estimated chiefly on the basis of the recent British census of production, with full recognition of the importance of derivative income. The author's view is that the amount of the latter makes no difference in computing the money income of a nation. This is substantially true. But we are interested in real rather than in money income, and some allowance must be made for a difference in the equation of the two as between metropolitan districts and out-of-the-way agricultural districts. After having established a statistical basis in terms of pecuniary units, the author actually considers real income. But this also needs to be treated statistically rather than illustratively by reference to various kinds of waste, some of which are mainly cases of transfer or derivation of income. Here is where one misses an attempt to compute the possible contribution to real income from those now merely living on derivative income. Until this is done, one may well doubt whether the existing national money income, if translated most efficiently into real income, could not provide comfortable and civilized living conditions for all.

Although the quality of the argument thus tends to fall off somewhat, it is on the whole substantial as well as stimulating.

G. P. WATKINS.

New York City.

NEW BOOKS

ALCORN, E. G. The duties and liabilities of bank directors. Revised edition. (Columbus, O.: American Textbook Co. 1914. Pp. 90. \$1.)

Brady, J. E. The law of bank checks. (New York: Banking Law Journ. Co. 1914.)

Bullock, E. D. Agricultural credit. Debaters' handbook. (White Plains, N. Y.: H. W. Wilson. 1914. \$1.)

Desjardins, A. The coöperative people's bank. (New York: Division of Remedial Loans, Russell Sage Foundation. 1914. Pp. 42.)

The author is the founder of the people's banks of Canada and has long been identified with their successful administration. His pamphlet is slightly historical, pointing to the origin of credit banks in Germany, but chiefly deals with the elements of organization that have managed to survive in the Canadian environment. The Canadian banks, for example, have uniformly a variable capital, that is, shares are withdrawable. This device suits the desires of the

people and does not interfere with the extraordinary success of the banks, not one of the 150 banks having yet lost a penny. R. F. F.

HAM, A. H. and Robinson, L. G. A credit union primer. (New York: Division of Remedial Loans, Russell Sage Foundation, 1914, Pp. iii, 79, 25c.)

In the United States cooperative banks have been but slightly developed. Massachusetts in 1909 enacted a law authorizing the formation of cooperative credit unions and this law has been imitated by three or four other states. In addition to the still small number of banks that have arisen in these states there are the interesting credit unions of the Jewish farmers in several states. Mr. Robinson, general manager of the Jewish Agricultural and Industrial Aid Society, and Mr. Ham, director of the Division of Remedial Loans of the Russell Sage Foundation, have compiled an elementary treatise on cooperative banking. Intended to give a stimulus to the further development of such banking, the treatise takes the easily intelligible form of questions and answers. The material here accords with the form of the people's banks in Canada, and with the form sanctioned by the Massachusetts law. There follow some pages on books and forms which should greatly simplify any work on organization. Notable are the bank by-laws. The volume concludes with a printing of the text of the New York credit union R. F. F.

НЕВВІСК, М. Т. Rural credits. Land and coöperative. (New York: Appleton, 1914. Pp. xix, 519, \$2.)
То be reviewed.

Holdsworth, J. T. Money and banking. (New York: Appleton. 1914. Pp. 439. \$2.)

To be reviewed.

Jacobsohn, P. Die landwirtschaftlichen Kreditgenossenschaften in Frankreich unter dem Einfluss der staatlichen Förderung. Tübinger staatswissenschaftliche Abhandlungen, 4. (Stuttgart: Kohlhammer. 1914. Pp. xiv, 154. 3.80 M.)

JOHNSON, J. F. Money and currency. In relation to industry, prices and rate of interest. Revised edition. (Boston: Ginn. Pp. 423.) Contains an additional chapter on recent monetary and banking legislation with an analysis of the new Federal Reserve act. Additional statistical tables are given in the appendix.

Levy, R. G. and others. Les grandes banques d'émission. Les banques d'émission, by R. G. Lévy. La banque de France, by P. Dellombre. Les banques des États-Unis, by A. Arnauné. La banque d'Allemagne, by M. Lair. La banque de Russie, by A. Raffalovich. La banque d'Angleterre, by I. Palgrave. (Paris: Alcan. 1914. Pp. 131.)

Le Coutre, W. Die Preisentwicklung in der Steinkohlengasindustrie. (Munich: Duncker & Humblot. 1914.) MAGEE, H. W. Supplement to Magee on banks and banking; the Federal Reserve act approved by Congress, December 23, 1913. (Albany: Bender. 1914. Pp. 969-1085. \$1.)

NEARING, S. Reducing the cost of living. (Philadelphia: George W.

Jacobs & Co. 1914. Pp. 343. \$1.25.)

In this book the maladjustments occasioned by the recent rise of prices have received little attention. The problem which the author conceives is one of social reorganization that drives all classes to dependence. According to his argument, however, the poor are not getting poorer, and the laborer's wage has never been larger since the Industrial Revolution (p. 91). Regarding the competitive system as no longer operative, the author regrets the absence of cut-throat competition on the ground that it meant "cheap goods." He would justify only normal returns on the cost of replacement of physical property and would tax away a surplus due to managerial ability. He says that all land ownership is monopolistic and further that this is the most oppressive monopoly in society (p. 281). The discussion makes "scarcity" synonymous with "monopoly." Were criticism necessary, I would say that scattered ownership without combination is not monopoly; if it were, all who own anything of value would be monopolists. The author would remedy this imaginary monopoly by taxing away the "unearned increment." He declares that the most fundamental cause of rising prices is the increase in land values which causes an increase in the value of raw materials derived from the land. I suggest that this reasoning is in error. From the net value of the product to the value of the land, and not the reverse, is the order of thought. The author attaches little significance to the quantity theory of money as a cause of rising prices. He reasons that since all prices do not move in approximately the same ratio the quantity theory cannot be given as a primary cause for rising prices. J. R. TURNER.

Paine, W. S. The laws of the United States relating to national banks as amended. Seventh edition. (New York: Baker, Voorhis. 1914. Pp. xii, 250. \$3.)

Palgrave, R. H. I. The banking almanac for 1915. (London: Waterlow. 1915. 15s.)

Praetz, J. H. Digest of savings bank laws, containing the new banking law, the tax law, and other laws applicable to the savings banks of the state of New York. (New York: J. H. Praetz. 1914. Pp. viii, 94. \$1.)

ROLLINS, M. Bankers' and investors' handbook for Massachusetts.
(Boston: Financial Pub. Co. 1914. Pp. 200. \$3.)

TILLYARD, F. Banking and negotiable instruments. A manual of practical law. Fourth edition, revised and enlarged. (New York: Macmillan. 1914. Pp. xxiv, 403. \$1.75.)

The author, professor of commercial law at Birmingham Uni-

versity, has brought the subject-matter of this book, first published in 1891, down to date by incorporating recent changes in the statute law and decisions of courts. In addition to a clear and concise discussion on practical legal questions, chapters deal with the history of banking in the United Kingdom and a consideration of the various kinds of securities that a customer may use in borrowing from a bank. An appendix contains reprints of texts of various forms of securities including bills of exchange, notes, and shipping documents.

Agricultural credit in Ireland. Cd. 7376. (London: Wyman. 1914. 5s. 5d.)

Bulletin of the Russell Sage Foundation Library on coöperative credit.
(New York. 1914. Pp. 5.)
A useful bibliography.

Commercial paper as defined by the Federal Reserve Board. (New York: Irving National Bank. 1914.)

Measures taken by H. M. government for sustaining credit and facilitating business. Cd. 7684. (London: Wyman. 1914. 2d.)

Der landwirtschaftliche Kredit in Preussen. I. Die östpreussische Landschaft. (Berlin: Parey. 1914. 6 M.)

Public Finance, Taxation, and Tariff

The United States Federal Internal Tax History from 1861 to 1871. By Harry Edwin Smith. Hart, Schaffner and Marx Prize Essays, XVI. (Boston: Houghton Mifflin Company. 1914. Pp. xix, 357. \$1.50.)

One of the useful studies called forth by the prizes offered by Hart, Schaffner and Marx, this book furnishes a very complete record of the internal revenue legislation during the period covered. Various classes of taxes are taken up in succession and, in connection with each, the course of legislation, covering both rates and administrative methods, is described in detail, with full citations of the sources of information, which greatly increase the value of the work for students. While it can hardly be said to throw new light on the general character and working of the internal revenue system during the Civil War, as described in the reports and essays of David A. Wells and in Frederic C. Howe's Taxation and Taxes in the United States under the Internal Revenue System, 1791-1895, its greater detail and fuller citations of sources make it a welcome addition to the literature of the subject.

An appendix contains carefully prepared tabular views of the changes in the rates of various taxes (something absolutely necessary to a comprehension of the kaleidoscopic mass of tax

legislation during the years in question) and a reproduction of the more important statistical material from the reports of the Commissioner of Internal Revenue, to which is added an extensive bibliography.

On the whole, the work seems to have been done with great accuracy. There are, however, some slips. In the table on page 22, in which are shown, quarterly, the rate of taxes on alcohol and the price in both gold and paper, there are errors in reducing the paper price to the gold price in October, 1864, and January, 1865, the erroneous figures in the latter case being used as the basis of an inference drawn in the text. On page 255 "watches" should evidently read "yachts" in the second line and "organs" in the thirteenth line.

In his discussion of the effect of the taxes on banks (pp. 141-144) the author concludes that they were borne by the banks, although the facts hardly seem to afford the basis for any positive statement, and implies that the only reason why banks took out circulation under these conditions was that they were required to invest one third of their capital in United States bonds, whether they took out notes or not, the additional expense involved in taking out notes being only the tax on circulation. That this is not an adequate statement of the case is evident from the fact that after the national banking system was firmly established in 1865 the bonds deposited to secure circulation were for some years more than double the amount of the required investment. In fact it is not clear how the bond deposit requirement has any bearing on the question of the effect of the tax on circulation or the willingness of the banks to take out notes.

Dr. Smith (p. 96) seems to regard the exemption of \$600 granted in the Civil War income tax as excessive and implies that it was twice the exemption allowed in England. This hardly conveys a correct impression. Incomes up to £100 were exempt in England. It is true that the deduction allowed from incomes in excess of this amount was only £60 and was limited to incomes of £200 or less. Since that time, however, there has been a constant tendency to increase both exemptions and deductions until today incomes up to £160 are exempt and a deduction of that amount is allowed from incomes up to £400, with a smaller deduction on incomes up to £700. In view of this subsequent development of income taxation it is certainly doubtful whether an exemption of \$600 can be regarded as excessive, particularly

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when allowance is made for a depreciated currency. There is, of course, no reason why a deduction of the amount exempt should be allowed from all incomes.

HENRY B. GARDNER.

Brown University.

The Income Tax. A Study of the History, Theory, and Practice of Income Taxation at Home and Abroad. By Edwin R. A. Seligman. Second edition, revised and enlarged with a new chapter. (New York: The Macmillan Company. 1914. Pp. xi, 743. \$3.00.)

The first edition of Professor Seligman's book on the income tax appeared in February, 1911, and the second edition, revised and enlarged, is already at hand.

In the review of the first edition¹ the present reviewer cited and commented at some length upon the prophecy made by the author that: "The income tax is coming. Sooner or later the constitutional or political difficulties will be surmounted and the United States will fall into line with every other important country in the world" (p. 672). The fulfillment of that prophecy has come. It is not often that a writer on finance finds one of his possibly daring prophecies fulfilled in so short a time.

The author did not have as good fortune with reference to state income taxes, which he was and is very much inclined to frown upon. For, almost immediately, Wisconsin disregarded his advice and adopted an income tax. As this tax, in 1912, its first year, yielded \$3,500,000, it renders invalid, for the time being at least, the statement (not corrected in the second edition, see p. 416) that "Virginia is the only state in which any appreciable income is derived from the income tax." A discussion of Wisconsin's experiment is introduced into the text (pp. 419 to 429) in place of the former sections on the "outlook for the future" and the "conclusion," i.e., as to state income taxes. But, in general, the views expressed before are presented again in connection with the new data.

The discussion of the new federal income tax is printed as an appendix. This seems very wise from the publisher's standpoint, as there is still so much uncertainty as to the meaning of the law

¹ See American Economic Review, vol. I (December, 1911), p. 862.

⁹ Strangely enough by some oversight—or was it intention—the prophecy, now fulfilled, is reprinted unchanged in the second edition.

on many points and as yet so very meager data on how it will actually work that these pages (675 to 704) must shortly be rewritten.

It will be remembered that in the first edition Professor Seligman laid down a "practicable programme." To this he adheres, reprinting it completely. A comparison of the "programme" with the new federal law, not forgetting Wisconsin's experiment, will possibly be an interesting mode of approach. The program opened with the demand that the income tax should be imposed and administered by the federal government alone. In so far as we have one new state income tax (and another, for Massachusetts, is being seriously considered), the demand of the program, that the income tax be imposed and administered by the federal government, even though the proceeds be divided among the states, is not yet conceded. But when it is noted that "the income tax is not needed for purposes of revenue in either the state or the nation" (p. 642), and more so, when we note that this judgment is sustained by the extremely low rates and high exemptions of the new tax, and that it yields but little new revenue, we may suspend judgment. The program may yet be followed.

Compared with the great "engines of the revenue," which the income taxes of Europe have been so well called, ours is like a child's toy locomotive. It has all the parts and runs by "truly steam"; it makes a loud noise, but it transports only tin soldiers.

As to the type of income tax, Congress followed the author's recommendation part way. We have a "stoppage-at-source" tax for taxable incomes under \$20,000, and a partial "lump-sum" income tax for larger ones. As to progression, also, the law regards the warning (p. 671), "it is clear that the adoption of the 'stoppage-at-source' scheme is incompatible with the general plan of a graduated income tax," follows the compromise suggested (p. 672), and introduces progression by the surtax method.

In the matter of schedules, the program has been largely followed in substance, but not verbally. Thus, corporate incomes are separately treated. The only difference here between the law and the program, is that the stockholder, not the corporation, is allowed to deduct from his taxable income dividends already taxed.

³This statement is found in both editions and is apparently inconsistent with the statement in the new edition (p. 675) that "the American law was enacted to compensate for the loss in revenue due to the new tariff." But, perhaps, the word "ostensibly" should be read into the last sentence. The fact that almost express provision is made in the law for a state to levy a surtax on the incomes taxed for federal purposes is also interesting.

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The proposal of the program that "statutory" or constructive income be included in the taxable income was not followed. As this could not be done very successfully until after the administration has been fully developed, the present omission is not serious. The same remark may be made as to that part of the program relating to appraisal or assessment of business and professional incomes by assessors. Both of these may come later.

The main points in which the new law is criticised are:

- (1) That it does not avoid international double taxation (p. 676).
- (2) That rental values of residences occupied by the owners are not included (pp. 678-9).
- (3) That profits from the sale of property by individuals who are not dealers are included even when losses on exactly similar transactions cannot be allowed for (p. 681).
- (4) That all taxes paid may be deducted from taxable incomes (p. 684).
- (5) The compromise allowing corporations to deduct interest on debts up to only one half the sum of the capital stock and of the interest-bearing debts (p. 685).
- (6) That holding companies may not deduct dividends received from taxed corporations (p. 685).
- (7) That no compensation is allowed to the withholding agents for stopping the tax at the source (p. 695).
- (8) That corporations having the "tax-free" clause in their mortgage bonds have to pay the tax on the interest. This is characterized as a case of hitting the man not aimed at (p. 695).
- (9) That to avoid the above difficulty "information at the source," instead of "stoppage-at-source," as suggested by Professor Bullock and the trust companies during the consideration of the bill in Congress, was not at least partially adopted (p. 696).
- (10) That no attempt was made to introduce differentiation as between "earned and unearned" incomes (p. 702).
- (11) The failure to introduce proper administrative methods, so far as ordinary business incomes are concerned (p. 703).

The two last mentioned are called the "real defects," and "the only important criticisms to be urged against the law."

Throughout the discussion many points in the law are highly praised. The conclusion reached is:

Taking it all in all, the law must be pronounced an intelligent and well-considered effort. It will need amendment in detail to make it completely equitable in principle, and fairly smooth in operation. But when we compare it with our preceding ventures in this field, we may be proud of what has been accomplished. Indeed, the law may be declared to be in many respects superior to any other existing income-tax law. With the passage of time, and with the settlement by

economic science of some of the moot points in the theory of income, it may be expected that the law will gradually win its way to public recognition.

It is a good thing to have so important a book as this kept up to date. Of some thirty or more "corrections and additions" which the reviewer has found, many are mere corrections of those vexatious slips which no scholarly care seems able to avoid in first editions. (For example, p. 534, 1894 for 1895, and p. 575, 1870 for 1880.) Outside of these, the excellent and extended survey of the history of the income tax in England has been enriched by new references to rare records by contemporaries (see p. 136, footnote 1; p. 169, footnote), and by utilizing the results of the new studies by Oseroff, Nanes (p. 51 footnote), Kennedy and Moll (p. 49; also footnote, idem). The German imperial income tax is given a footnote (p. 272). The tables in the appendices to book I (p. 219) have been brought down to date and enlarged.

The more one uses this book with students, the more is one impressed with the thoroughness of the historical surveys, especially that of the English tax; while for the lawyer, the legislator, the tax administrator, and the business man, the book is no less valuable on account of its thorough treatment of the principles of existing income taxes and for the discussion of the controversial

questions.

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CARL C. PLEHN.

University of California.

The Disproportion of Taxation in Pittsburgh. By Shelby M. Harrison. (Reprinted from the Pittsburgh District: Civic Frontage, The Pittsburgh Survey. N.d. Pp. 156-213, 455-468.)

This monograph is the fruit of a supplementary investigation made under the auspices of the Pittsburgh Survey in the summer of 1910. Mr. Harrison's analysis of the situation, as it stood at that time, revealed two "glaring evils." The first was "the threefold classification of real estate." Only one half the full tax rate was applied in the case of real estate classed as "agricultural," and two thirds in the case of "rural" real estate; the full rate was applied to the so-called "city" real estate which comprised approximately three fourths of the land value in Pittsburgh. The concessions granted to the "agricultural" and "rural" classes, Mr. Harrison points out, not only encouraged

holding land out of use but also resulted in throwing a heavier burden upon the "city" real estate. The "city" real estate was defined by statute and court decision as "compactly built up" areas and was found to include much of the congested tenement district.

"The separate ward rates" was the second cause of the disproportion of taxation in Pittsburgh. Under the plan in force, a large share of the school expenses was allocated to particular districts, so that the rate of taxation varied enormously from one part of the city to another, and not less than sixty-three distinct tax rates were applied within the city limits. This system, Mr. Harrison shows, operated still further to the disadvantage of the residents of the congested districts.

It should be pointed out that another investigator interested in the congestion problem might have made out a better case for the classification system. The "rural" class, although it comprised but little more than one fourth of the total assessed value of real estate, included the great bulk of the area of the city. This class might possibly have been considered the characteristic type of taxable property and the heavier rate upon "city" real estate labeled a penalty imposed to discourage the use of such property for residences, "The separate ward rate" system operated, however, to prevent the working out of any such result from the classification system. Certainly, if the classification system had been reversed, an appealing case could have been developed on the ground that the arrangement constituted a discrimination against the poor in the tenement districts, as it imposed a barrier against the utilization of the less crowded section for homes.

Moreover, Mr. Harrison's treatment seems to involve the acceptance of the so-called business man's theory of incidence (p. 187), viz., that the entire real estate tax is shifted to the tenant; for the classification scheme and the consequent differentiation in the tax rate applied not only to land but to buildings as well. For those who are not convinced that the land taxes, even under the unusual conditions existing in Pittsburgh, are shifted to the tenant, the value of the monograph would have been considerably enhanced by the addition of some information about the percentage of tenement dwellers who own their homes, and about the relative value of buildings to lands in these districts.

Too much praise cannot be given to the skilful way in which

Mr. Harrison presents his case. Maps, charts, and photographs are used in an extremely effective manner. His work may well be taken as a model by those who are confronted with the difficult task of causing "glaring evils" to glare. The publication of the monograph must be justified on the ground of its usefulness for this purpose, for changes were made in the Pittsburgh system in 1911, due in part, at least, to the influence of this report while still in manuscript form, which entirely eliminated the objects of the author's criticism.

ROBERT MURRAY HAIG.

Columbia University.

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The System of Taxation in China in the Tsing Dynasty, 1644-1911. By Shao Kwan Chen, Columbia University Studies in History, Economics and Public Law, LIX, 2. (New York: Longmans, Green and Company. 1914. Pp. 117. \$1.00.)

Taxation in China has exhibited the characteristics reasonably to be looked for in a crudely despotic state, feeble and irresolute. There has been no general plan. To the early taxing officer's favorite recourse, a tax on land, there has been added, as need arose, a confused set of devices for taxing salt and three sorts of customs duties—the regular or native customs on goods transported in internal or foreign commerce, the *likin*, and the maritime customs. There are also various minor sources of revenue. None of these is adjusted to others as parts of a system, and in none are the essential elements definite.

Inequality (as in railway rates, for example) necessarily follows upon indefiniteness. So the Chinese tax collectors bargain with taxpayers and the small man fares badly in the bargaining. Different custom houses compete with each other to attract business. As between economic and social classes the burden is quite unequally distributed. The land tax is not on the whole burdensome. Customs duties are said to have been introduced anciently for the set purpose of discouraging trade, which was regarded as an ignoble pursuit; and that result is still realized through double and multiple taxation of the same goods. The official and literary class is not reached directly by any form of taxation, but benefits from the abuses of the whole system, being favored especially in the salt tax. This revenue accrues through a medley of monopoly franchises in the salt industry on which the monopolists

pay royalties. Prices of salt are fixed by government at the source of supply and also in the market, ostensibly to protect producers and consumers, but in fact the producers and consumers are at the mercy of the monopolists. They buy with large baskets when the price is fixed in units of volume. They sell at prices from 16 to 20 times their purchasing price. They contrive by "underbilling" their cargoes to evade the payment of royalty on part of what they handle. The chief task of the reformers—chief in difficulty and in importance—is to overcome the power of this class of men. It has been said that most high officials are or have been interested in the salt monopoly.

Mr. Chen has written an excellent summary account of taxation under the old régime, but it is too summary and it is not complete. It fails to describe the maritime customs, as well as numerous other taxes—on tea, on various minerals, pawnshops, sales of land, etc. The revenue from some of these is of secondary importance but should at least be mentioned.

It is a considerable achievement to analyze the confusion and irregularity of the Chinese "salt-gabelle" in such a way as to make its main outlines fairly intelligible. This Dr. Chen has done. Most attempts have been quite unsuccessful.

A. P. WINSTON.

Wolf, J. Die Steuerreserven in England und Deutschland. Ein Beitrag zur Frage der "Rüstungsgrenzen" beider Staaten. Finanzwirtschaftliche Zeitfragen, 13. (Stuttgart: Enke. 1914. Pp. 56. 2 M.)

This pamphlet consists of an address delivered last May, published with copious annotations and an appendix in which are presented serviceable summaries and comparisons of tax systems and revenues, especially of Germany and the United Kingdom. The object of the author is to demonstrate the superior financial strength of Germany. The argument runs somewhat as follows:

That Germany has greater tax reserves than England appears, first, from the fact that England's tax revenue per capita is 70 per cent greater than Germany's, while her per capita wealth and income are respectively only 20 and 40 per cent greater; and, secondly, from an examination of the tax systems of the two countries. Direct taxation in England has nearly reached its limit, since the rate upon large incomes is now so high that any considerable increase in the yield must be drawn from classes

now exempt or only moderately taxed—a plan which would be politically very difficult. On the other hand, Germany could readily increase her revenue from direct taxes. As to indirect taxes, an increase of rates in England is precluded by the height of existing rates, so that recourse must be had to the introduction of new taxes, which is a much "harder nut," both administratively and politically. Germany has greater freedom in this respect, because of a multiplicity of taxes at moderate rates.

The tone of the work is unfortunately such as to suggest a lack of scientific candor, and in some places the evidence seems insufficient to support the argument. Thus, by means of a comparison of expenditures for army and navy, Germany is acquitted of prime responsibility for armament, although in this comparison (1) per capita figures are used in a way which obscures Germany's larger absolute expenditures; (2) actual war expenditures during the period of comparison are (apparently) neglected; and (3) increases during the past five years are compared without reference to the relative extent of armaments at the beginning of the period (pp. 10, 11). Nor is it clear that British patriotism would not withstand the strain of still higher direct taxes and of new indirect taxes. Finally, the character of the consumption of the taxed articles affects the relative ease of raising more revenue by new taxes or by an increase of existing rates. Altogether, Dr. Wolf does not seem completely to have established his case, although he has given English readers much to ponder.

O. C. LOCKHART.

Ohio State University.

NEW BOOKS

Bullock, E. D. Single tax. Debaters' handbook. (White Plains, N. Y.: H. W. Wilson, 1914, \$1.)

Cunningham, A. B. Maryland tax digest. (Baltimore: M. Curlander. 1914. Pp. x, 260. \$3.50.)

EINAUDI, L. Corso di scienza delle finanze. Second edition, edited by A. Necco. (Torino: E. Bono. 1914. Pp. l, 1010. 201.)

This second edition of Signor Einaudi's treatise should command the interest of all students of public finance. It is not yet a finished book. It is the substance of lectures delivered during a number of years at the University of Turin and the Bocconi University of Commerce at Milan, and in time the author expects to issue it definitively. Some forty pages of outline give a summary of the entire work. Part I follows with a discussion of various sorts of public income proceeding from individuals who receive a specific gain for their payment. Of particular interest is a discussion of the characteristics of industries which the state should or should not manage and of prices to be charged for services; railroads are dealt with here, Part II, touching the objects of taxation, is acknowledged to be more provisional than the other parts.

Parts III and IV, comprising two thirds of the entire work, are replete with thoughtful discussion. Part III considers the kinds of taxes and the norms for levying them. The English and Italian systems are held to be essentially equivalent; and the Italian system, which in its main lines goes back to 1864, is held to be admirable and to be vastly better than many of its crities in Italy maintain. Though the entire treatise includes many shrewd observations on aspects of Italian finance, the space of a hundred and fifty pages in this part is wholly devoted to an analysis of Italian taxation and constitutes an essay of enduring interest on the subject.

Part IV deals with extraordinary finance. Incidentally, one notes that the author, who writes before 1914, supposes, for purpose of illustration, a war for nationalist ends and selects the year 1915 for the coming of its burden. The discussion of war taxes, of paper money and its depreciation, and of funded debt is skilful.

Einaudi's work is, in the main, clearly and compactly written, despite its length; and it is well systematized. There is a tone of sanity and discretion. Though the definitive edition is yet to come, the present work will surely repay study.

R. F. FOERSTER.

Geller, L. Oesterreichische Finanzgesetze über Einzelmaterien, mit Erläuterungen aus den Materialien und der Rechtsprechung. (Vienna: Hölder. 1914. Pp. xix, 704. 6 M.)

Higgs, H. The financial system of the United Kingdom. (New York: Macmillan. 1914. Pp. vii, 218. \$1.60.)

The purpose of this volume is to give a connected account of "financial procedure" in the United Kingdom. It does not undertake a history or propose reforms, but within the shortest possible compass presents "a summary exposition" of the British financial system. From his long connection with the Treasury, Mr. Higgs is exceptionally fitted for his task, and it is almost supererogation to say that he has produced a highly useful book.

Of course the subject is a familiar one, and different parts of it have been treated ably and at length by writers upon British government, law, and administration. But it is extremely convenient to have an authoritative account of financial procedure as a whole, and for this students of public finance will be grateful to Mr. Higgs. One great merit of the book is its succinctness of statement, which enables the author to compress his exposition into

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one hundred pages. The rest of the volume is made up of valuable appendices which give the text of important statutes and a number of valuable forms and documents.

C. J. BULLOCK.

- Knoepfelmacher, J. Das neue Personalsteuergesetz. (M.-Ostrau: Papauschek. 1914. Pp. vii, 144. 1.50 M.)
- Lvon, H. Principles of taxation. (Boston: Houghton Mifflin. 1914. Pp. v, 133. 75c.)
- MA, Y. C. The finances of the city of New York. Columbia University studies in history, economics and public law, LXI, 2. (New York: Longmans. 1914. Pp. 312. \$2.50.)
 To be reviewed.
- Ott. Die Vermögens und Einkommens-Steuer in der Schweiz. (Zurich: Füssli, 1914.)
- Parsons, G. O. Supertax tables and net income tax tables. Based on the finance act for 1914-1915. (London: King. 1914. 2s. 6d.)
- Snelling, W. E. Income tax and super tax practice. (London: Pitman, 1914. Pp. 450. 10s. 6d.)
- Young, E. H. The system of national finance. (London: Smith, Elder. 1914.)
- The customs service; complete course of instructions, with questions and answers. (New York: Chief Pub. Co. 1914. Pp. 332. \$1.)
- Manual of the income tax. (New York: Standard Statistics Co. 1914. \$3.)
- Protective tariff cyclopedia. The Underwood and Payne-Aldrich laws compared. (New York: Am. Protective Tariff League. 1914. Pp. 159.)
- Return of the total naval expenditure of the United Kingdom in each of the last ten years, with similar information for each of the principal foreign naval powers. H. of C. 410. (London: Wyman. 1914. 1s. 6d.)

Population and Migration

Jewish Immigration to the United States from 1881 to 1910. By Samuel Joseph. Columbia University Studies in History, Economics and Public Law, LIX, 4. (New York: Longmans, Green and Company. 1914. Pp. 209. \$1.50.)

This is a valuable and scientific contribution to what the author correctly describes as a movement which "has almost reached the dignity of the migration of a people," and has brought to our shores about 1,562,800 Jews, nearly all from Russia, Roumania, and Austria-Hungary, between the years 1881 and

1910. That we can now quite closely estimate its extent is due largely to Dr. Joseph's discovery and use of the figures contained in some early Jewish annual reports, antedating 1899, when the government began to classify Jewish immigrants as such, and to able estimates of his own, reducing earlier estimates

materially.

Dr. Joseph divides his work into two sections, the first half being devoted to The Causes of Jewish Emigration, in the form of a study of conditions in the three European countries named, which have led to this Jewish immigration, and to the status and characteristics of the Jewish emigrant in his European home; and the second half to Jewish Immigration to the United States, being a very valuable statistical and comparative study of the Jewish immigrant arriving here. Part I is concise, accurate, and penetrating, and contains valuable material not heretofore conveniently accessible, especially not in English. In fact, the reader may well be disposed at first to doubt the place here of such an elaborate study of the history of Russia, Roumania, and Galicia of the past thirty-five years, in its bearings on their Jewish population; but when he reaches the second part of the work he finds how illuminating the statistics become in the light of this earlier section and cross-references to it. That this Jewish immigration is due primarily to governmental persecution in Russia and Roumania, and is conditioned almost wholly by the ebb and flow of discriminatory laws, persecutions and pogroms, clearly appears from Mr. Joseph's book. Even the illiteracy of Jewish immigrants is shown to stand in close relationship to oppressive and increasing restrictions upon Jewish education in Russia and Roumania. Dr. Joseph's objective and scientific study ought to fill a great need in overcoming unwarranted assumptions of fact. Typical is his correction of Professor Ross' recently published statement regarding the supposed "emigration of 50,-000 Roumanian Jews between January and August, 1900," "brought about by steamship agents who created great excitement in Roumania by distributing glowing circulars about America." Dr. Joseph points out, first, that only 6183 Roumanian Jews arrived in the United States in the whole of the year 1900, and during the entire twelve years from 1899 on, less than 55,000; and that, on the other hand, there is not only no proof of the supposed machinations of the steamship agents in Roumania at

¹ See further as to this, Senate Document No. 611, 63 Cong., 2 Sess.

the period stated, but that contemporary records show that the movement was due to a new outbreak of Roumanian anti-Semitism.

The second section, dealing with Jewish immigration to America is subdivided into two parts: first, Its Movement, treating of the numbers, source, and immediate occasion for the migration; second, Its Characteristics, with respect to family movement, permanent settlement, occupations, illiteracy, and destination. Large masses of statistics, chiefly collected by the Immigration Commission, are handled in a painstaking and truly illuminating manner, and Dr. Joseph shows how this Jewish immigration is far more a "family movement" than even the "old immigration" of the past few decades was, that its return movement is smaller than any other, and that it embraces a "larger relative proportion and absolute number of skilled laborers" than is furnished by any other immigrant people, a fact heretofore commonly overlooked. He also points out that the larger proportion of occupationless wives and children constituting this Jewish migration makes it all the more difficult for the male bread-winner to avoid economic stress here, a factor which would have acquired still more support, had he analyzed the government figures with respect to the relatively smaller amount of money brought over by the Jewish immigrants. On the other hand, such a priori inferences are completely rebutted by an analysis of the Immigration Commission's statistics as to immigrants becoming public charges, and by the reports of Jewish private charities, all showing that the Jewish immigrant becomes a public or a private charge in far fewer instances than the average immigrant, that this burden is in fact decreasing with the increased immigration, and is so small as to be relatively negligible.

Dr. Joseph practically ignores, however, the many institutions and agencies, which the United States, and especially the Jews here, have established and constantly extended, for the distribution of the immigrant, his Americanization and aid, and acquisition of the art of self-help, which other races enjoy only within smaller limits, and which make it comparatively easy within this decade, to assimilate per annum a hundred thousand Jews, while before their establishment, in the eighties, it was difficult to provide for 20,000.

MAX J. KOHLER.

NEW BOOKS

ANTIN, M. They who knock at our gates. A complete gospel of immigration. (Boston: Houghton Mifflin. 1914. Pp. 143. \$1.)

The author is more emotional than scientific. The Declaration

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of Independence is accepted as our "fundamental law"—taken literally. All immigrants, a million as much as one, have a right to life, liberty, and the pursuit of happiness. Economic facts are disregarded. It is stated that there is still an unlimited supply of free land; that Texas alone could support the whole world's population with a homestead of an acre or so for every man. No qualification is made to the effect that a third of these acres produce only mesquite and chaparral. It is a pity that the publishers should see fit to advertise such a book as "a powerful presentation of the immigrant problem.

A. B. W.

- Fischer-Dueckelmann, A. Der Geburtenrückgang; Ursachen und Bekämpfung vom Standpunkt des Weibes. (Stuttgart: Süddeutsches Verlags-Institut. 1914. Pp. 88.)
- Grassi. Der Geburtenrückgang in Deutschland, seine Ursachen und seine Bekämpfung. (Kempten: Kösel. 1914. 1 M.)
- Hirsch, M. Fruchtabtreibung und Präventivverkehr im Zusammenhang mit dem Geburtenrückgang. (Würzburg: Kabitzsch. 1914. Pp. v, 267. 6 M.)
- Jahn, T. Der Geburtenrückgang in Pommern von 1876-1910. (Berlin: Schoetz. 1914. Pp. 58. 2.40 M.)
- Schroft, R. and Fischer, A. Europa-Uebersee. 1. England, Frankreich und Belgien in Brasilien. (Vienna: Manz. 1914. Pp. xxii, 171. 4.30 M.)
- Literacy test for immigrants. Constructive and rebuttal speeches of the representatives of the University of Iowa in the 1913-1914 intercollegiate debates. (White Plains, N. Y.: H. W. Wilson. 1914, \$1.)
- Supplement to the seventy-fifth annual report of the registrar-general of births, deaths and marriages in England and Wales. Part I. Life tables. Cd. 7672. (London: Wyman. 1914. 9d.)
- Tabellen über die Bevölkerungsvorgänge Berlins im Jahre 1912, (Berlin: Puttkammer & Mühlbrecht, 1914, 3,50 M.)

Social Problems and Reforms

The Young Man's Chances in South and Central America. A Study of Opportunity. By William A. Reid. (Washington: Southern Commercial Congress. 1914, Pp. 173.)

Mr. Reid touches upon conditions and opportunities in trade—engineering, agriculture, banking, manufacturing, teaching, journalism, insurance, law, medicine, and miscellaneous vocations in the countries of South and Central America, and to some extent in Mexico and Cuba. He also includes personal experiences and observations, the stories of success and failure of others, the Latin-

American student movement, and other topics. Such an array of subjects in so limited a space could be given but superficial treatment; and in his preface Mr. Reid states that the book "is not a guide but rather, it is hoped, a means of awakening deeper study of possibilities as well as pitfalls."

The nature of the book is anecdotal and detailed, with extended quotations from sources of varying authority. Rates of salaries and wages, together with estimated costs of living in Brazil, constitute a valuable detail. A statement concerning "large areas" and "great mines" of coal in South America, unaccompanied by any statement that South America is a coal importing nation and that even Chile, the greatest coal producer of the continent, still imports half her coal, incurs the risk of being misleading. Mr. Reid admits frankly that salaries and wages rule lower and expenses higher in South America at present than in the United States, so that the opportunities of chief interest to North Americans are those in trade between the United States and Latin America, or positions with some foreign corporation established in Latin America or in some scientific or technical capacity for a Latin-American government. Since Mr. Reid wrote these lines the whole business situation on both the east coast and west coast of South America has become even more unpromising.

He does well to note one potent influence of North America on South America omitted surprisingly often by writers on Latin America, namely, the American schools with American teachers in several of the countries. Originally established as sectarian institutions several of them have developed into preparatory schools highly regarded by the South Americans and subsidized in one country at least—Bolivia—by the state. Possible opportunities in South America in shoe manufacturing on a small scale and in dairy farming and operation might well have received more attention, also the possibility of department store operation, which is not mentioned at all.

A valuable part of the book is the appendix, provided by the Pan-American Union, containing lists of companies with offices in the United States operating in Latin America, of United States periodicals paying especial attention to Latin America, and of prominent United States firms in Latin-American trade,

SELDEN O. MARTIN.

Industrial Training. With Special Reference to the Conditions Prevailing in London. By Norman B. Dearle. Studies in Economics and Political Science, No. 39. London School of Economics. (London: P. S. King and Son. 1914. Pp. xiii, 596. 7s. 6d.)

In his preface Mr. Dearle states: "A previous investigation of problems of unemployment in the London building trades had impressed upon me the great importance of the question of training." Thereupon, instead of adopting, as has been too much the custom in vocational education, a priori notions as to what that training should be and how it should be applied, the author approaches the matter inductively by making a fairly exhaustive study of actual conditions in the leading trades within what is known as Greater London.

While the choice of the largest city in the world makes the study unusually complex, and while London conditions are so far unique as to make many of Mr. Dearle's suggestions inapplicable to other communities, the fact that—with certain notable exceptions, such as the conversion of metals and the spinning and weaving of textiles—almost every form of industry, carried on in almost every size of establishment, is to be found in London, makes his investigation of peculiar interest and value.

After setting forth his problem in three well-arranged chapters, the author, in the succeeding five, analyzes with a good deal of skill the four main methods of acquiring a trade. These he designates as "regular service," "migration," "following up," and "picking up." Contrary to what is generally thought, there still exists in London trades a large measure of apprenticeship, though much more informal in character than that implied in the old meaning of indenture. "Migration," when intentionally adopted, and when preceded by a term of regular training, seems, in his opinion, to be showing excellent results; whereas "following up" (by which he means the placing of a boy as mate or helper to one or more mechanics), while preferable to the haphazard "picking up" of a trade, is, as a rule, less effective than regular service, whether stationary or migratory.

Having thus analyzed the general problems of methods in vocational training, Mr. Dearle devotes a number of chapters to actual conditions in London, analyzing the leading industries, taking up such serious problems as unemployment, casual labor, and blind alley occupations, and studying the many existing

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agencies for assisting boys both to learn a trade and to find work when idle. In a final chapter, The Needs of the Future, he sums up his conclusions.

The author points out that there are two practically distinct problems involved in juvenile labor: organization and education proper. He warns the reader, moreover, that there is a question of unskilled, which is even more difficult than that of skilled and semi-skilled, employment. He proposes no new organizations except, tentatively, juvenile trade boards within the several industries; but advocates, of course, systematization and wider scope for the existing juvenile labor exchanges and after-care committees. He advocates a rather radical, but wholly feasible, reorganization of elementary education, with a raising of the school-leaving age to fifteen, coupled with a multiplication of day trade schools and compulsory continuation schools, and a decrease of the hours of labor, for persons under eighteen, eventually to 42 per week.

Mr. Dearle's study has unusual value, not only intrinsic, but as a model for parallel studies in many other industrial centers. In vocational training the day of propaganda has gone by and that of the definite handling of specific conditions has arrived. Such actual problems can be dealt with only upon a solid basis of ascertained facts. The "survey," industrial and educational, of a community, such as that just completed for Richmond, Virginia, by the National Society for the Promotion of Industrial Education, must precede any attempts at legislation or school reform; and only after many such surveys shall have been made and many resulting methods of vocational education and guidance shall have been scientifically and patiently tried, will it be possible to lay down any general principles concerning industrial training. To this long work of necessary preparation, Mr. Dearle has made an early and useful contribution.

JAMES P. MUNROE.

Toynbee Hall and the English Settlement Movement. By Werner Picht. Revised edition. Translated from the German by Lilian A. Cowell. (New York: The Macmillan Company. 1914. Pp. xii, 248. \$1.25.)

This is a guide book which requires a guide to rearrange its values. Chapters are given to Toynbee Hall schedules, the reflected discouragement of a particular leaderless and therefore ineffectual resident group, admiration for the original gospel

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through which the settlements got under way, and substantial satisfaction in the momentum and definiteness characteristic of settlements which are attached to some particular religious or charitable body of doctrine. But there is hardly an effort throughout to bring these phases into a single perspective, to show what place they have in a coherent interpretation down to the present or in a forecast of the future,

The book brings out with freshness and fulness the story of Arnold Toynbee, but it barely mentions Edward Denison the real pioneer of the settlements, who not only was himself the first settlement worker but foreshadowed much more definitely than Toynbee the motives and the working principles which have governed the best settlement practice. The significance of the achievements of Canon and Mrs. Barnett means less to the author than their philosophy. A true account of the progress not only of organized social work but of socialized public administration would necessarily trace back much of what is soundest and most broadly effective to the wide range of social experiment which the Barnetts originated. A thorough analysis of their work and influence would, for instance, disclose a definite logical relation between their twenty-five years' effort for the rehabilitation of Whitechapel and their last remarkable achievement in the creation de novo of the Hampstead Garden Suburb.

Dr. Picht seems to find it difficult to understand the volunteer spirit in the service of the community except where it is under a kind of pious fervor for "the poor as brethren." Those easy working relations that so often exist among Englishmen of different classes—the class distinction being continuously taken for granted—has evidently not been experienced by him. Still less does he count upon the growing measure of democratic interchange which takes place between those who, formally or informally, represent leadership of the different social classes.

The measure of despondency which Dr. Picht reflects, on the part of Toynbee Hall residents, is partly the result of the marked success of Toynbee Hall in sending a long list of men into important positions in municipal, national, and colonial service. The lack of effective method for securing and training a succession of men and women for settlement leadership and for social work generally is clearly shown; but the increasing influence of the London School of Economics, the establishment of the Liverpool School of Social Science, and the creation in several of the pro-

vincial universities of courses bearing closely on social work, are tending to bring about an encouraging change in this respect.

Dr. Picht discloses the vital point in the settlement situation not when he regrets the decline of the particular kind of enthusiasm which was characteristic of the early days, but when he deals definitely and strongly with the absence at Toynbee Hall of any penetrating, coherent conception of the neighborhood as the community form in which the settlement should to a very large extent become absorbed. This is the settlement's peculiar and distinctive field, which no other social agency is at present so well equipped to develop—a field which affords the most stimulating possibilities for sympathetic social analysis and for a kind of subtle human contact which, in endless unsuspected ways, appeals strongly to moral imagination and purpose. The longrange test of the settlement in England and America is as to whether it can discern its own unique opportunity in organic social reconstruction.

In general, this little book furnishes a suggestive exhibit of the confused appreciation of a German for a characteristic English national tendency toward humanized and democratized culture carried out under free and varied personal initiative and in a kind of sporting spirit.

ROBERT A. WOODS.

J. F.

NEW BOOKS

Barrows, A. The farm kitchen as a workshop. Farmers' bulletin 607. (Washington: Dept. Agr. 1914, Pp. 20.)

Arrangement of kitchen for economy of labor.

Brown, U. D. A brief survey of housing conditions in Bridgeport, Connecticut. (Bridgeport, Conn.: Bridgeport Housing Association. 1914. Pp. 64.)

Three selected districts—two crowded and one open—are examined by canvass of all houses (160) and apartments. Statistical tables are few and cover type of house, toilets, and the distribution of new building. Descriptions are careful and detailed.

CROSSLAND, W. A. Industrial conditions among negroes in St. Louis. Studies in social economics of the School of Social Economy, vol. I, no. 1. (St. Louis, Mo.: Washington University. 1914. Pp. ix, 123, 75c.)

A detailed study of the economic status of the 44,000 negroes of St. Louis, who make up more than 6 per cent of the total population of that city, giving complete and detailed analyses of occu-

pation groups, wages and salaries, business and working conditions, and the relation of negro workers to employers and labor unions. While it adds nothing to our general knowledge of the economic organization or welfare of the American negro, the study will be of value to those who desire to compare race conditions in a city of southern traditions with such cities as Boston and New York which have already been studied on a more extensive scale; and it will serve to confirm and strengthen general observations and conclusions already formulated.

The author very sensibly places a large measure of responsibility for the solution of the so-called "negro problem" on the negro himself. "The whites may clear the road but the negro must do the traveling." He rightly declares that while color or social position may for a time outweigh other factors in industrial advancement, yet "economic values will ultimately outweigh them all." "The negro himself must acquire stability, ambition, the spirit to achieve, the desire to rise."

EDWIN S. TODD.

EMERICK, C. F. The struggle for equality in the United States. Reprinted from the Popular Science Monthly, Dec., 1913—July, 1914. Pp. 99.

Professor Emerick traces, through the history of the United States and in present-day business, political and judicial activity, the fortunes of the fundamental American aspirations toward democracy and fair play. The radicalism of the Declaration was followed by the reaction of the Constitution. Then came the long struggle with the slave power, ending with the radical amendments after the Civil War. The development of the power of the railways and industrial monopolies then began to threaten democracy, and violate the ideal of fair play. In the light of his text he points out the significance of the innumerable conflicts in politics, industry, and in the courts in the effort to restrict the power of capital and to uphold that personal independence and equality of opportunity which is our heritage from the self-reliant pioneers of an earlier day. More than one third of the work is taken up with the discussion of the courts in their relation to public opinion and to property. The author concludes that "the remedy for our political ills lies in quickening the general intelligence and in appealing to the idealism latent in the people."

G. L. ARNER.

FLAGG, M. I. Model farm houses. Extension bulletin 52. (Minneapolis: Minnesota Farmers Library, 1914.)

Elevations and plans submitted in architectural competition for construction of a ten-room farm house to cost \$3,500. Three pages of text; 27 pages of drawings.

J. F.

Gehrig, H. Die Begründung des Prinzips der Sozialreform. (Jena: Fischer. 1914. 8 M.)

- Ives, G. A history of penal methods; criminals, witches, lunatics. (New York: Stokes. 1914. Pp. 11, 409.)
- HASSKARL, G. C. H. Modern problems of the home, school and church. Solved by Christian pedagogy and sociology. Second edition, enlarged. (Verona, N. Y.: G. C. H. Hasskarl. 1914. Pp. 191. \$1.50.)
- Kahn, J. and Klein, J. J. Principles and methods in commercial education; a textbook for teachers, students and business men. (New York: Macmillan. 1914. Pp. 14, 433. \$1.40.)
- Lippmann, W. Drift and mastery. An attempt to diagnose the current unrest. (New York: Mitchell Kennerley. 1914. Pp. xxvi, 324. \$1.50.)
- McKeever, W. A. The industrial training of the girl. (New York: Macmillan. 1914. Pp. 11, 82. 50c.)
- MANGOLD, G. B. Problems of child welfare. (New York: Macmillan. 1914. Pp. xv, 522.)

 To be reviewed.
- PARKER, G. H. Biology and social problems. (Boston: Houghton Mifflin. 1914. Pp. xix, 130, with four plates. \$1.)
 - This delightfully lucid and readable little book consists of the William Brewster Clark Memorial Lectures at Amherst College in 1914. The topics covered are the nervous system, hormones, reproduction, and evolution. Much of very great interest to the lay reader will be found in each chapter. One would hardly look for suggestions to the agriculturalist or dairyman in a chapter on hormones, but the progressive dairyman will find at least one very startling suggestion in this chapter. Professor Parker's most important views, from the point of view of social science, are expressed in his discussion of eugenics. One is delighted to find a biologist emphasizing the importance of social, as opposed to organic, heredity.

 A. B. Wolffe.
- PRICE, G. M. The modern factory. Safety, sanitation and welfare. (New York: Wiley. 1914. Pp. xx, 574. \$4.)

 To be reviewed.
- ROWNTREE, B. S. and PIGOU, A. C. Lectures on housing. The Warburton lectures for 1914. (Manchester: University Press. 1914. Pp. 70. 50c.)
 - Rowntree's subject is, "How far is it possible to provide satisated factory houses for the working classes, at rents which they can afford to pay?" He fails to answer the question but discusses the means of reducing house and land costs. Pigou's title is, "Some aspects of the housing problem." He is "inclined to rank housing with education and insurance in regard to which subsidies are already provided, rather than with food and clothing in regard to which such subsidies . . . cannot . . . be provided." Pigou defends

the principle of using public funds for house construction, but recognizes the practical difficulties of applying the principle.

J. Ford.

Taylor, J. S. A handbook of vocational education. (New York: Macmillan, 1914. Pp. xvi, 225. \$1.)

Various Authors. Eugenics: twelve university lectures. (New York: Dodd, Mead. 1914. Pp. xiii, 348. \$2.)

These lectures, suggested and made possible by Mrs. Lucy James Wilson, of Washington, D. C., were delivered by a number of specialists in biology, medicine, economics, and sociology, at various universities in 1912-1913. In spite of their diverse professional interests the lecturers succeeded so well in saying about the same elementary things that the book is a good example of the sort of unnecessary and wasteful publication made possible by subsidizing and cheap printing. Mrs. Wilson excuses the wearisome repetition on the ground that "these are not views expressed by a small group of people influenced by each other, but that on the contrary thinking men in various parts of the country concur in the same general belief. Maybe so, but she overlooks the fact that nearly all of them get most of their information and largely their point of view from three men-Galton, Pearson, and Davenport. The lectures most worth attention are those by Professors Ellwood, Aldrich, Thorndike, and especially the one by Professor Keller, on "Eugenics and its social limitations."

A. B. WOLFE.

Vedder, H. C. The gospel of Jesus and the problems of democracy. (New York: Macmillan. 1914. Pp. ix, 410. \$1.50.)

"The gospel of Jesus is pure democracy," says Professor Vedder, in this call to Christians to take the lead in the struggle for real democracy and social justice, both in politics and in industry. The church has always been conservative and more interested in doctrinal discussion and ritual than in the betterment of the condition of humanity here on earth, but the time is ripe for a change of emphasis, and there are many indications that this change is taking place. Jesus was a thorough revolutionist, and His followers should work for such a social revolution as would abolish poverty and the slum, free women and children from industrial slavery, and abolish vice, crime, and preventable disease. This work is one of the best of the many recent attempts to reconcile Christianity with the revolutionary idealism of socialism. The first chapter sets forth in a general way the modern applications of the teachings of Jesus, and in the remainder of the book the various social problems are taken up in detail, and discussed clearly and vigorously in the light of the author's conception of true Christianity.

G. L. ARNER.

Veiller, L. Protecting residential districts. (New York: Nat. Housing Assoc. 1914. Pp. 17.)

A review of the zoning legislation of California, Wisconsin, Minnesota, New York, and Canada, showing the principles governing districting, the weaknesses of these laws, the attitude of the courts, and the means of making zoning legislation succeed.

A discussion of woman suffrage, by Yale University debating teams, in the 1914 triangular debates with Harvard and Princeton. (New Haven, Conn.: Yale Coöp. Corp. 1914, Pp. 38, 35c.)

A handbook containing suggestions and programs for community social gatherings at rural school houses. Revised edition. (Charleston, W. Va.: M. P. Shawkey. 1914. Pp. 54.)

An investigation of housing conditions of Cleveland's workingmen.

The best, the average, the worst. (Cleveland, O.: Dept. Public Welfare. 1914. Pp. 34, illus.)

A list of helpful publications concerning vocational instruction.
(Albany, N. Y.: Univ. of State of N. Y. 1914. Pp. 41.)

Penal farms and farm colonies. Bulletin no. 6. (New York: Russell Sage Foundation Library. 1914. Pp. 3.)

Contains three pages of bibliographical entries.

Die Wohnungsfrage in Deutschland. (Dresden: Kühtmann. 1914, Pp. 194. 5 M.)

Insurance and Pensions

Fire Insurance and the Municipalities. By A. Fingland Jack. (London: P. S. King and Son. 1914. Pp. xiii, 160. 3s. 6d.)

Though brief, this discussion supplies some valuable information on the experience of cities in providing insurance. The title is misleading in that the author considers only municipal schemes of insurance in England and Scotland and only nine of these in cities. An investigation of such plans of insurance on the Continent would have greatly added to the value of the book.

The first two chapters discuss insurance companies, agents, and brokers. The relation of this discussion to the particular subject is not very apparent. Then follows a description of the municipal insurance plans of London, Nottingham, Birmingham, Leicester, Bradford, Hastings, Accrington, Aberdeen, and Glasgow. Appendices show the deficiency account of a defaulting insurance company, the number of fire insurance companies in 1861 and 1911, a précis of a bill to regulate insurance brokers, agents, and companies, and, finally, the insurance scheme of the Southport corporation.

By municipal insurance the author means insurance by the city either of city property or private property of citizens. Two common reasons assigned for municipal and state insurance are exorbitant profits of companies and unfair rates. The author shows, what is true in every country, that unusual earnings have not been secured; and that in England as in the United States the greatest number of lately organized companies have failed. A committee, somewhat similar to the rating bureaus in the United States, establishes rates for all municipalities, and therefore to a large extent discrimination does not exist.

The conclusions drawn from this somewhat meager investigation are: (a) so far as tried, the plans have been successful, but all the plans are new and used only by such municipalities as have had a favorable experience in the past; (b) only the larger municipalities can use the plans; (c) municipalities might borrow in case of very heavy losses, or insure only the less hazardous risks; (d) self-insurance should be labelled "poison," to be used with care.

W. F. Gerhart.

vv. E. Gillin.

NEW BOOKS

CLARK, W. L. The investigation and adjustment of liability insurance claims and workmen's compensation losses. (Baltimore: Maryland Casualty Company. 1914. Pp. 103. \$1.)

Domizlaff, K. Die Feuerversicherung. Versicherungs-Bibliothek, 2. (Berlin: Mittler. 1914.)

ELDERTON, W. P. and FIPPARD, R. C. The construction of mortality and sickness tables. A primer. (London: Adam & Charles Black. 1914. Pp. vi, 120, 2s, 6d.)

It is no easy matter for actuaries, or any other class of technical experts, to translate the more or less mysterious processes of their calling into descriptive language which will enable the lav mind to visualize the subject to its own satisfaction. The process of recording great masses of mortality or morbidity experience in such tabular form as to show at a glance approximately how many people at this or that age may be expected, in the light of this or that standard, to die or become sick, is a particularly intricate matter of which few people without the actuarial pale have the faintest conception; and most of the literature dealing with it is too technical for the enlightenment of lay readers. In the case of the abovenamed primer, however, Messrs. Elderton and Fippard, both fellows of the Institute of Actuaries, have so handled their subject as to make it readily understandable by would-be students of insurance principles and processes, though without any knowledge of the mathematics of insurance, and the book may fairly be termed the clearest and most concise treatment of its subject now available. It is exceptionally free from technical words and phrases, and in its introductory pages apparently starts with the assumption that the reader has practically no prior acquaintance with the methods

and results to be discussed. The illustrations and graphs, and the 34 tables which accompany the text not only illumine the discussion but furnish considerable data as to sickness and mortality experience at various ages and in divers sections and countries which are likely to prove useful for reference purposes, as is the compact but comprehensive index appended.

E. B. P.

Holmwood, W. E. New Jersey employers' liability law. (Plainfield, N. J.: New Jersey Law Journ. Pub. Co. 1914. Pp. 227. \$3.50.)

Jenney, A. C. Record of business in each of the states and territories of the United States and the Dominion of Canada, by the joint stock fire insurance companies in 1913 and of aggregate business for thirty-five years, from 1880 to 1912 inclusive; also the aggregate business in each state for the years 1880 to 1913. (New York: Underwriter Prtg. & Pub. Co. 1914. Pp. 148. \$15.)

Koburger, J. Versicherungsbuchführung. Versicherungs-Bibliothek, 1. (Berlin: Mittler. 1914.)

WILLIS, W. A. National health insurance through approved societies. (London: Hodder & Stoughton. 1914. Pp. 528. 10s. 6d.)

Conference on life insurance and its educational relations. (Urbana, Ill.: University of Illinois. 1914. Pp. 93. 50c.)

Digest of workmen's compensation and insurance laws in the United States. (New York: Workmen's Compensation Publicity Bureau. 1914.)

Revised to December, 1914; covers laws in 24 states including Nebraska.

Fees and taxes charged New York insurance companies by insurance departments of other states for 1915. (Albany: Ins. Dept. 1915. Pp. 52.)

Fire insurance, laws, taxes and fees. Revised to August 1, 1914. (Chicago: Spectator Co. 1914. Pp. 496. \$5.)

Report of the departmental committee on sickness benefit claims under the national insurance act. Cd. 7687. (London: Wyman. 1914. 9d.)

Report of the police pension fund of the city of New York, 1913. (New York: Bureau of Municipal Research. 1914. Pp. 212.)

Statistics of compensation and of proceedings under the workmen's compensation act, 1906, and the employer's liability act, 1880, during the year 1913. Cd. 7669. (London: Wyman. 1914. 6d.)

Unemployment insurance: decisions given by the umpire respecting claims to benefit. Vol I, nos. 1-500. (London: Wyman. 1914. 1s. 4d.)

Workmen's compensation law of the state of New York. Revised with amendments, April, 1914. (New York: Lehmaier & Bro. 1914. Pp. 47. 25c.)

Pauperism and Charities

The State and the Poor. By Geoffrey Drage. The Nation's Library, No. 9. (London: Collins Clear-Type Press. 1914. Pp. 264. 1s.)

Some of the factors in the most pressing English poor law problems are indicated in this book. Seriatim the author discusses vagrancy, the mentally defective, the aged poor, the adult poor, women, children, and areas and administration, citing statistics where possible, giving a brief history of past treatment, and concluding with a statement of the present status of the problem.

"The habitual vagrant after a certain number of convictions should be sentenced to a period of detention in a labor colony." The recent Mental Deficiency act has brought about a much needed reform in that it provides for the handling of all feebleminded by one authority. In the problem of the care of the aged poor the fault to be remedied is the manner of giving outdoor relief. There is no uniformity in the methods pursued by different guardians, and in the vast majority of cases the relief is quite insufficient. The author views the question of the ablebodied male pauper as perhaps the most hopeless of the whole poor law problem. While admitting that labor exchanges have done good work, he believes that the great thing to be done is "to legislate for the children." Much might be effected, he believes, by preventing blind alley occupations and by preventing boys from being employed at any work involving long hours of deteriorating routine. In the discussion of the widow with young children, he reaches the conclusion that "the best plan would be to board out the children with their mother, paying a sum large enough for the maintenance of the children, to relieve the mother from the necessity of working."

For poor law children, the author pronounces boarding out as perhaps ideally the best method, but points out that it depends "on the supply of suitable homes available, requires very careful inspecting, and can only be used for children adopted by the guardians." Where boarding out is not used he would encourage investigation of home conditions before granting relief and, as far as consistent with safety, the granting of outdoor relief provided home conditions are satisfactory. In discussing areas of administration, the author rejects the proposals of both the majority and minority reports of the Royal Commission on

the Poor Law, and endorses the scheme put forward by Mr. Charles Booth and Sir Arthur Downes, which rests upon the grouping of unions based on population rather than on the area occupied and varying in method according to urban or rural conditions.

In regard to poor law authority for London, Mr. Drage believes that the unit of area should be coterminous with Greater London, as such an area constitutes an urban population socially interconnected and industrially interdependent. As to the question of the constitution of the central authority for London, he rejects the scheme put forward by the majority of the poor law commission and favors "a transformed Metropolitan Asylums Board." His choice of this body rests on the belief that its nearly fifty years of practicable experience and evolution as a working machine of public assistance make it the logical body to assume the new responsibility.

The book should be of interest to all students of English social conditions. The author's twenty-five years of practical experience, both in the United Kingdom and in other countries, give his conclusions no little value. It will hardly prove of interest to the general American reader. In this connection, however, it should be stated that the author's task was no easy one. The present system of English local self-government truly presents a labyrinth "full of pitfalls to the unwary," especially in the domain of public assistance. The poor law administrator in England is supposed to be acquainted with 350 or 400 statutes, with 5000 judicial decisions interpreting those statutes, and with poor law and local government board orders which if printed with the statutes would cover more than 2500 octavo pages.

FRANK D. WATSON.

Haverford College.

Socialism and Co-operative Enterprises

Historical Materialism and the Economics of Karl Marx. By BENEDETTO CROCE. Translated by C. M. MEREDITH. With an introduction by A. D. LINDSAY. (New York: The Macmillan Company. 1914. Pp. xxiii, 188. \$1.25.)

This is a collection of occasional essays and reviews, written by Senatore Croce from 1896 to 1900. They are still worth reading as an interesting commentary and criticism of the theories of Marx by one who, although himself both Hegelian and socialist, considers that all the Marxian doctrines are in need of revision and that some of them should be abandoned altogether. The translation is excellent and the introduction by Mr. Lindsay is not the least important part of the book.

In discussing historical materialism Croce gives slight attention to the plagiarisms of Professor Loria, but regards Professor Labriola's work as the most satisfactory treatment of the question. Historical materialism, as Labriola implicity admits, is not a philosophy of history but "some philosophising about history." Indeed, there can be no philosophy of history, in the Hegelian sense, for it is impossible to work up into general concepts the single complex whole in which the historical sequence consists. To divide it into its factors is to destroy it. Historical materialism is not even a new method, as Engels called it, but merely the introduction of new data. Nevertheless, the contribution of Marx to historical method is most vital, as he has called attention to forces previously ignored or underestimated. When Professor Stammler says that historical materialism has proved unable to give us a valid science of society, his criticism is wide of the mark, because this was not its main original object. Both Stammler and Labriola err in thinking that there is an inseparable connection between historical materialism and socialism. In the view of Croce, the study of history cannot do more than to show that "society is now so constituted that socialism is the only possible solution which it contains within itself."

Croce's criticism of the Marxian theory of value is interesting chiefly as illustrating the transition between orthodoxy and extreme revisionism. Das Kapital, in Croce's view, is an abstract investigation of capitalistic society, which is an ideal and formal, rather than an actual society, and the concept of labor value cannot be applied to actual society without considerable modification. The law of value has validity in the sphere of Marx's conceptions, not in economic reality. It applies only to the determination of the value of commodities capable of being increased by labor. The equivalence of value with socially necessary labor time is a fact, but a fact which exists in the midst of other facts, that is, opposed, limited and distorted by other facts. It is not a completely dominant fact but neither is it non-existent and merely imaginary.

Croce's refutation of the Marxian law of the fall in the rate of profits is most interesting and conclusive; and in his letters to

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Professor Pareto on the "Economic Principle" he strikes a shrewd blow at the foundations of mathematical economics:

The mathematicians have done much for economic science by reviving in it the dignity of abstract analysis, darkened and overwhelmed by the mass of anecdotes of the historical school. But, as it happens, they have also introduced into it the prejudices of their profession, the particular prejudices that mathematicians can take up in relation to economics—which is the science of man, of a form of the conscious activity of man—the same attitude it rightly takes up in relation to the empirical natural sciences.

J. E. LEROSSIGNOL.

University of Nebraska.

Was Marx Wrong? A Criticism of Marxism vs. Socialism, by Valdimir G. Simkhovitch. By I. M. Rubinow. Issued by the Members of the Marx Institute of America. (New York: The Coöperative Press. 1914. Pp. 62.)

Amid a storm of invective and abuse heaped on Professor Simkhovitch's head, may be discerned three major criticisms of his book by Dr. Rubinow. The first challenges Simkhovitch's data in regard to the concentration of production; the second, his data in regard to the growth of the middle class; and the third, his optimism concerning the welfare of the masses. This review will be confined to an examination of the statistical data and methods of the two authors.

Simkhovitch's thesis in regard to the first point must be carefully noted. He points out (p. 50): "That a centralization of industry has taken place is an undeniable fact," but contends (p. 51) that "there has been no such far-reaching centralization as the Marxian vision of future economic development presaged." For example, the number of manufacturing establishments in the United States increased in greater proportion than the number of wage-earners between 1890 and 1900.

Rubinow, on the other hand, maintains that concentration has been so great (p. 28) that there is no future for small industry; and shows that the data as to growth of establishments were admitted by the Census Bureau to be unreliable. And then he (p. 21) presents a table of "factories, excluding hand and neighborhood industries," for the years 1900 and 1910 which shows that the number of wage-earners has increased faster than the number of establishments. This table is beside the point, for it is just the persistence of the hand and neighborhood industries that is under

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discussion. Their number, moreover, is very large, being 304,704 as against 207,514 factories in 1900. Further, it must be expected that the increase of concentration in factories should be greater than that in hand and neighborhood industries.

Although the criticism made by Rubinow (p. 21, bottom, to p. 24) is sound—that either the number of employees engaged by large factories or the total output is of greater importance than the number of such factories—the author oversteps a just interpretation of his figures: he says (p. 24) that, because in 1904 the large factories produced 38 per cent of value of manufactures, and in 1909, 43.8 per cent, "by this time it is reasonable to assume it has reached one half." In the first place this is not a reasonable assumption; and, secondly, the figures do not prove an inevitable concentration to the bitter end, and therefore do not affect Professor Simkhovitch's thesis, which acknowledges some concentration.

Again, the criticism (p. 24, bottom, to p. 28) of Simkhovitch's table on p. 27, in proof of his statement that "in commerce the small establishment is still more persistent than in industry," is well grounded. The data submitted by Simkhovitch do not prove this statement, but those submitted by Rubinow (pp. 26-28) establish it. According to Rubinow's figures, the percentages of employees changed as follows:

Commercial and industrial establishments in Germany.

	Commercial			Industrial		
	1882	1895	1907	1882	1895	1907
Small Middle-sized Large	75.60 20.24 4.15	69.70 24.31 5.99	61.55 26.61 11.83	65.20 18.61 26.19	39.89 23.77 36.34	29.47 25.02 45.51

Clearly, the small commercial establishments are maintaining themselves better than the small industrial establishments!

Rubinow's criticism (pp. 29-32) of Simkhovitch's statement that "no tendency towards concentration exists in agriculture" (p. 68) and the table (p. 67) on agricultural acreage in the United States is true enough, but he overlooks the other statistics, which show that Simkhovitch is not guilty of "absolute misunderstanding of what concentration means" (Rubinow, p. 30). And if Simkhovitch's table on farm acreage in the United States (p. 67) is meaningless, so also is Rubinow's on farm acreage in the West

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North Central division (p. 30). On page 31 Rubinow suggests the true basis of comparison, and so also does Simkhovitch in his table on page 65. The data of neither are of real statistical value, and it is clear both realize this.

Rubinow next attacks (pp. 33-45) Simkhovitch's denial (pp. 70-97) of the disappearance of the middle class. He suggests indeed (p. 33) that Marx's doctrine is in need of modification, but charges that the tables which Simkhovitch exhibits have "absolutely no bearing upon the question of the increase or decrease of the middle class."

To Simkhovitch's table on the German income tax which shows an absolute and relative increase of middle class incomes (p. 89) Rubinow suggests the following qualifications (pp. 84-35):

(1) It is not true that all persons with incomes of 2100 marks or over are middle-class persons.

(2) The increase in cost of living is disregarded.

In regard to the first, there is much controversy over what constitutes the middle class. It is certainly in accord with the economic interpretation of history to claim that a middle-class income makes a middle-class person.

In regard to the second, the index numbers show just the opposite of what Rubinow suggests. The *Economist's* numbers (with which other numbers are in substantial agreement) for January 1 of the years in question are as follows: 1853, 112; 1867, 137; 1870, 122; 1873, 134; 1878, 116; 1882, 111; 1891, 101; 1892, 97; 1896, 91; 1902, 89. Taking the period as a whole, there was a fall in prices! Rubinow, however, is correct in taking Simkhovitch to task for not bringing his figures to date, for this would have forced a modification of his views.

On page 36 Rubinow shifts the question from the increase or decrease of the middle class, to the increase of the very wealthy class, and on pages 38 and 39 gives the Prussian income tables to show this increase. But these very tables play him false; for they show a marked increase of the middle class, from 4.75 per cent of the population in 1892 to 8.23 per cent in 1912, and an increase in their share of wealth from 24.84 per cent to 29.91 per cent. On page 39 Rubinow says: "But what we are interested in at present is the concentration of national incomes." This is not so, for the point of interest is the middle class. And his estimate on page 41, taken for what it is worth, points to the increase of this class. Rubinow's criticism (p. 43) of Simkho-

vitch's estimate (p. 95) of the number of stockholders in the United States is valid. Simkhovitch's table on this page rests on the assumption that the proportion of holders who own stock in various companies remains the same, and of this we have no knowledge. Further, as Rubinow points out, the period of 1904 to 1908 is too short to be worthy of attention.

The third criticism by Rubinow (pp. 46-56) of Simkhovitch's denial of increasing misery of the masses (pp. 98-146) is confined to the latter's method and statistics, for Rubinow also confesses to not believing in this theory (p. 46). His criticisms are, however, valid. Simkhovitch has clearly misinterpreted the facts in his table on page 138 showing the increased per capita importation of food-stuffs into England between 1840 and 1901, for he has included a number of articles which were largely home-made in 1840, and which in 1901 were almost wholly imported. This is shown by Rubinow on pages 47-49; but the facts, even as corrected, are still sufficient to prove Simkhovitch's case. Professor Adams' table also (cited by Simkhovitch, p. 144) may be open to criticism. It is also a serious fault, as Rubinow points out, to stop with the year 1900, for the evidence indicates that since then real wages have declined.

O. W. KNAUTH.

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Princeton University.

The Collectivist State in the Making. By EMIL DAVIES. (London: G. Bell and Sons, Ltd. 1914. Pp. xviii, 267. 5s.)

It has been the experience of the author of this book and of many other persons that, whenever a proposal is made that a community itself shall administer a service or carry on an inindustry, some advocate of things as they are complacently announces that, while it would be lovely if it could be done, it is not practicable; and some advocate of things as they ought to be vehemently demonstrates in theory how "the whole thing is as simple as losing money on the stock exchange": while neither one is aware that in some city or country the precise thing proposed is in successful operation. So the author has collected, diligently and through several years, all the instances he can find of the collective ownership or operation of industrial enterprises, and gives a brief account of them.

The list is portentously long, a warning to everybody against dogmatic statements about the incapacity of governments for

managing productive enterprises. It includes the state and city as owner of land and house property, of light and power, of transportation and of forests; the city and state as producer of raw materials, minerals, food, drink, and tobacco; as manufacturer, as contractor for public works and as owner of workshops, warehouses, cold storage depots, grain elevators, markets and abattoirs. It cites the cases in which the city or state is a tourist agency, an owner of baths and spas, hotels and boarding houses and theatres, besides catering for the public amusement, turning a doubtfully honest penny by owning lotteries or, more respectably, by acting as banker or pawnbroker for the living and undertaker or trustee for the dead.

The information about collectivist enterprises in the United States is too scant. For instance, while the subway system of Paris is glowingly described as an example of public ownership combined with private operation, no mention is made of the subway system of New York, the completed part of which was fully financed by the city and the immense enlargements of which now under construction are partially financed by the city, under a contract which vests ownership in the city and leases operation to private corporations.

That stupendous collectivist enterprise, the digging of the Panama Canal, is insufficiently described by a quotation from a magazine article dated December, 1910, no reference being made to the line of steamers operated between Colon and New York nor to the newspaper publications in the canal zone. Also the work of the United States Reclamation Service, with the model villages incidentally laid out and the electric power incidentally developed is inadequately portrayed; while the work of the United States Forestry Service in the preservation and leasing of grazing lands is not described at all. Alaska and its government coal mines and projected government railways are not mentioned.

Though the author says, "The only claim that I care to make for this book is that it is not academic," he does break the monotony of reciting dry facts by moderate indulgence in less substantial theories. He condemns expropriation as being as impolitic as it is dishonest; and advocates the payment by bonds for monopolies acquired by the public as being just as economical and far more easy than payment in terminable annuities. He approves an extension of power to the employees in the management of collectivist industry at which a private corporation would

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stand aghast, though he discerns the impossibility of transferring to the employees all managerial power, as is demanded by syndicalists.

JOHN MARTIN.

National Guilds. An Inquiry into the Wage System and the Way Out. Edited by A. R. ORAGE. (London: G. Bell and Sons. Ltd.; New York: The Macmillan Company. 1914. Pp. viii, 370. \$1.60.)

The authors of the present work are at some pains to distinguish their proposed guild socialism from state socialism on the one hand and from syndicalism on the other hand. Their "national guild" means "the regimentation into a single fellowship of all those who are employed in any given industry." There will be some fifteen or twenty such guilds, corresponding to the main industry groups, each with as many subdivisions as the several branches of the integrated industry may require. The guild in its corporate capacity will control the instruments and processes of production, buying machinery and materials from other guilds and from foreign traders and disposing of the finished products; it will regulate safety and sanitation, determine all questions of work and pay, look to the technical training of its members, and discharge the functions of social insurance. Guild members will be paid in labor-time checks ("guilders"), though the pay may not be equal either as between different guilds or as between members of the same guild. Consumable goods will be purchased (for labor-time checks) by the guild members in severalty, the price being proportionate to labor cost (in "guilders") per unit of product, including the "guilders" cost of materials and equipment. The guilds will be democratically governed and inter-guild disputes will be settled by a congress of all the guilds. The prime advantage of this scheme, from which all other gains are deduced, is the abolition of rent, interest, and profits. Labor will receive its full product.

Alongside the guilds will exist various voluntary associations for aesthetic, recreational, scientific, and religious purposes. Moreover-and here the authors break with syndicalism-the state will remain not merely alongside but above the guilds, to perform the functions of national defense, foreign relations, police and civil education. Government will be supported by some sort of levy

upon the guilds.

Space does not permit a description of the interesting methods by which "wagery" (capitalism) is to be overthrown and the new order instituted. But the authors counsel direct action and have no patience with politics. No epithets are too opprobrious for the Fabians and the I.L.P.; they are "the negation and the defeat of socialism" (p. 9); their leaders are quack doctors, "prescribing political pills for economic earthquakes" (p. 71); their parliamentarians are traitors compared with whom "Bazaine of Metz was a demigod" (p. 139).

The authors vehemently deny that their scheme is utopian (preface and pp. 137, 281); "guild socialism" is put forward as both feasible and historically necessary. That such a system would not work, if once fairly set going, cannot be affirmed with much assurance. That it is "against political economy" is beside the point. For orthodox economics, at the hands of its best teachers, professes to be no more than an analysis of capitalism; its deliverances afford no criterion of any different mode of economic life. But the growth of institutions, trade union or other, is a cumulative sequence of habituation. Each successive step is taken in response to the exigencies of the moment, with little regard to any preconceived program; each step is conditioned by existing circumstances as well as ideals and each step modifies the ideals as well as the circumstances which condition the next move. Wherefore every far-reaching scheme of social reconstruction is utopian and all utopias are foredoomed to failure.

It would be easy, did space allow, to multiply misstatements of fact and inconsistencies of reasoning. Thus it is postulated throughout that state socialism entails the continuance of exploitation under the guise of full compensation to the present owners of industry (ch. 4). Surely, complete or partial expropriation could be as readily executed by a socialist state as by the national guilds. Again, the economic interpretation of history is handled but haltingly; it is repeatedly asserted that "economic power is the substance and political power the shadow" (pt. I, chs. 7 and 8), yet the stability of economic organization is made to depend upon its consonance with ethical ideals (pt. II, ch. 1). Logically, indeed, the structure is weak throughout. Assertion and illustration do duty as proof; there is little attempt at ordered reasoning.

E. H. DOWNEY.

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- Where and Why Public Ownership has Failed. By Yves Guyot. Translated from the French by H. F. Baker. (New York: The Macmillan Company. 1914. Pp. ix, 459. \$1.50.)
- M. Guyot's book is an inductive study of government ownership and operation. He draws on the special studies of many writers dealing with various experiments in government operation and also, to some extent, on his own practical experience in public affairs.

Compulsion, bribery, and instinct for personal gain are asserted to have so far been the three mainsprings for human (economic) action. The motive for a private undertaking is gain and the test is gain or loss. The motive for public undertakings is political or administrative influence for those who promote them. For the promoters of public undertakings there is no material penalty and not often any moral penalty in case of failure. In a chapter on Bookkeeping in State and Municipal Trading Enterprises, it is contended that almost never is the data provided sufficient to determine exactly the profits or losses.

The Belgian state railways, the Prussian railroads, the state railways of Austria and Hungary, of Italy, of Switzerland, of New Zealand, and of France are dealt with in separate chapters. Then comes a discussion of gas, electricity, and tramways, of fiscal monopolies, etc. The profits realized by some of these fiscal monopolies are shown to be considerable only because goods of poor quality are sold at high prices. The conclusion of a chapter on Public versus Private Enterprise is:

When political or administrative bodies, whether states or municipalities, operate, they are regulating themselves. This is a sufficient reason in itself for the suppression of all public trading operations, because it is necessary that there be a distinct separation between the forces of operation and regulation.

Industrial operation is inherently adapted to private enterprise. Industrial control is the corresponding function of states and municipalities.

The lack of safety on French government railroads and even on government railroads of other countries, such as Prussia, is statistically compared with the relative safety to passengers on the lines of the French private companies. Other signs of government inefficiency are indicated in the case of the telephone, the telegraph, and the tobacco monopoly.

M. Guyot has written a most illuminating and withal an interesting book, full of forceful arguments and pungent comment. Yet perhaps the arguments presented would carry still greater weight

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if some attention were devoted to the injustice, mistakes, and not infrequent dishonesty in private undertakings and to the possibilities of reform by means of public regulation alone.

H. G. BROWN.

NEW BOOKS

CLARK, J. B. Social justice without socialism. (Boston: Houghton Mifflin, 1914. Pp. 49. 50c.)

It is in thorough and far-reaching social reform rather than in a revolutionary transformation of society that Professor Clark sees the attainment of the highest ideals of social justice for the world of the future. Monopoly in any form is likely to be hostile to improvement, public monopoly no less than private. Socialism, in putting an end to industrial competition, would thereby be likely to discourage technical progress, so that with increasing population poverty and its accompanying evils might become worse than at present. The recognition of an evil describes a possible reform, and each real reform accomplished is a step toward social justice. Perhaps the most important of all possible reforms are the regulation of monopoly and a change in the mode of adjusting wages.

G. L. ARNER.

MILLS, H. E. Socialism; outline for reading and study. (Poughkeepsie, N. Y.: H. E. Mills. 1914. Pp. 40. 50c.)

REDFERN, P. The story of the C. W. S. The jubilee history of the Cooperative Wholesale Society Limited, 1863-1913. (Manchester: Cooperative Wholesale Society Ltd. N.d. Pp. viii, 439. 3s. 6d.)

This volume "presupposes a general acquaintance with the cooperative store movement in England and Wales" and is what it purports to be—a story of the Cooperative Wholesale Society. It is primarily a record of events with a few of the principles of cooperation included. The numerous activities and undertakings of the C. W. S. are chronicled. The conception, plans, operations, and the success or failure in practice of all the leading industries are given in detail. The time covered is long, the field is large, and the detail supplied is so great that the narrative moves slowly and, for those not familiar with the local and personal side, is at times dull and uninteresting. Each particular incident is interesting in itself but a general narrative made up of particular incidents all of about equal importance does not hold complete attention through over 400 pages of rather close type.

The reader does not obtain a clear picture of the movement. His vision is obscured mainly by too many details and occasionally by irrelevant material.

The book contains much of local interest. It will be more eagerly read by Englishmen than by Americans. In America we are more anxious to know the fundamental principles underlying cooperation and the methods and means of bringing it about than the detailed history.

The book contains an appendix of some 50 pages which includes a biographical index, statistical tables showing the progress of the movement, the first plans of the C. W. S., chronological index of principal events, and other details of less importance.

ROBERT A. CAMPBELL.

SPARGO, J. Socialism and motherhood. (New York: Huebsch. 1914.
Pp. 128. 60c.)

This little volume, written in the author's most poetic style, is a plea for the protection of motherhood from the perils of poverty and from the grind of the industrial system. Mr. Spargo sees in socialism the only relief for the mothers of the working class, the only chance for equality of opportunity for every child, and the only hope of world peace. The ancient argument that socialism would destroy private family life and establish "free love" is discussed at length and refuted.

G. L. A.

Statistics and Its Methods

Grundriss der Statistik, By Carl Ballon, (Berlin: J. Guttentag. 1913. Pp. 348, 9.50 M.)

The title of this work is somewhat more ambitious than its contents justify. The volume was intended primarily as a compilation of materials for the collateral use of students of statistics; but the author expresses the hope that the book will be useful, for reference purposes, to a wider circle of readers. It is true that the data are in most cases presented for series of years in a manner not available in most yearbooks or almanacs. The author's desire to keep the book within the limits of a convenient size and a moderate price, however, caused him to omit a great deal of material at his disposal and, more regrettable still, to omit most of the references to the sources of the statistics presented. The latter omission would, in the reviewer's judgment, seriously interfere with the usefulness of the book to the public at large.

The work consists of an eight-page introduction dealing with the essence and the concept of statistics, and of five parts of unequal length treating, respectively, of statistics of population, industry (including agriculture), finance, commerce, and miscellaneous subjects. More than one half of the book is devoted to industrial and agricultural statistics.

The author is not in sympathy with those who consider statistics as merely a method. He says:

The object of statistics is to find scientifically unobjectionable methods and to group in a scientific manner the data obtained by a systematic observation of the masses, so as to bring out, so far as possible

to the human mind, the causal relationship existing between different phenomena.

The author is very emphatic in insisting on the importance of the original schedules which are the raw material of statistics; he believes, contrary to the opinion of many sceptics, that there is only one truth in statistics.

As far as the reviewer has been able to ascertain, the data are carefully collected and accurate, although the population figures for the United States in 1910 are probably derived from preliminary announcements and do not fully agree with those published in the final report of the thirteenth census.

On the value and importance of machine methods of tabulation the author does not appear to be fully informed. He states (p. 18) that mechanical methods of tabulation have added nothing to the accuracy and but little to the cheapness of statistical work. Apparently he does not know of the important check on figures that is called machine verification; and he does not appreciate the fact that the elaborate cross-classifications presented in recent statistical publications would have been impossible, except at prohibitive cost, were it not for the tabulating machines.

E. A. GOLDENWEISER.

NEW BOOKS

- Bowley, A. L. An elementary manual of statistics. (New York: Scribner. 1914. Pp. 215. \$2.)
- Brinton, W. C. Graphic methods for presenting facts. (New York: Engg. Mag. 1914. Pp. xii, 371. \$4.)
 To be reviewed.
- Burn, J. Vital statistics explained. (London: Constable. 1914. Pp. 150, 4s.)
- HERBST, R. Die Methoden der deutschen Arbeitslosenstatistik. (Leipzig: Teubner. 1914, 5 M.)
- Krause, A. Statistische Geographie. Tabellen aus allen Gebieten der physikalischen und politischen Erdkunde, über Verkehrswesen, Handel und Gewerbe, Heer und Marine. (Leipzig: Börner. 1914. Pp. 146. 3 M.)
- VON MAYR, G. Statistik und Gesellschaftslehre. I. Theoretische Statistik. Second edition revised. (Tübingen: Mohr. 1914. 9 M.)
- Mortara, G. Tavole di mortalità secondo le cause di morte, per la popolazione italiana 1901-1910. (Rome: Cecchini. 1914. Pp. 79.)
- PAPWORTH, L. W. and ZIMMERMAN, D. M. The occupations of women

- according to the census of England and Wales 1911. (London: Women's Industrial Council. 1914. Pp. 41. 6d.)
- Schreffler, R. B. Department store statistics with the aid of the slide rule. (Chicago: R. B. Shreffler. 1914. Pp. 140, illus. \$5.)
- Births, deaths and marriages, England and Wales. Supplement to the seventy-fifth annual report of registrar-general for 1911. Part I. Life tables. Cd. 7512. (London: King. 1914. 9d.)
- The official year book of New South Wales, 1913. (Sydney: J. B. Trivett, Government Statistician. 1914. Pp. 1045. 2s. 6d.)
- The statistical year book of Quebec. (Quebec: Bureau of Statistics, Pp. 463.)
- Statistisches Jahrbuch für den Preussischen Staat. XI. Jahrgang. (Berlin: Kgl. pr. stat. Landesamt. 1914. Pp. 693. 1.60 M.)
- Oesterreichische Statistik. II. Kriminalstatistik. (Vienna: Gerold. 1914. Pp. 7, 339. 10.50 M.)

DOCUMENTS, REPORTS, AND LEGISLATION

Industries and Commerce

THE LUMBER INDUSTRY. An extensive and painstaking investigation of The Lumber Industry has been made by the United States Bureau of Corporations. Part I, covering Standing Timber (Washington, 1913, pp. xxiii, 301); parts II and III on Concentration of Timber Ownership in Important Selected Regions and Land Holdings of Large Timber Owners (1914, pp. xx, 264, with 8 ownership maps); and part IV on Conditions in Production and Wholesale Distribution Including Wholesale Prices (1914, pp. xxi, 933) have been published. A subsequent part will treat of the retail side of the industry.

The investigation upon which this report is based was conducted in response to certain Senate and House resolutions directing that information be obtained on "the causes of the high prices of lumber, and whether or not those high prices have resulted from any contract, agreement, or combination in restraint of commerce."

At its inception the investigation indicated that the control of standing timber meant the control of the whole lumber industry and hence the fixation of prices. Because of the lack of any reliable estimates of the amount of timber in the United States or of data concerning its ownership, the bureau found it necessary to cover these points as well as to ascertain the facts as to the movement of lumber prices, the price agreements among dealers, the nature of the business of manufacturing lumber and the analysis of the economics of large-scale production.

The foremost facts shown and conclusions drawn are:

(1) "The remaining supply of standing timber in continental United States (excluding Alaska) is now about 2,800 billion board feet, of which about 2,200 billion is privately owned" (pt. I, p. 1). "The present annual growth is estimated by the Forest Service at only about one-third the annual cut" (pt. I, p. 5). Without allowance for new growth or increase in consumption the bureau's total for all timber in the United States would represent about 55 years' supply and that for privately owned timber alone only 44 years' supply (pt. I, p. 7).

(2) "From 1897 to 1907 there was a remarkable advance in lumber prices. This advance ranged from 80 to 200 per cent, depending upon the kind of wood and the grade of lumber" (pt. IV, p. xviii).

(3) Only a small fraction of the increase can be explained by the fact that "lumber agrees with other commodities in reflecting the depreciation of gold" (pt. I, p. 180).

- (4) A part of the advance "was undoubtedly due to the concerted efforts of lumber manufacturers. During this period and since, the lumbermen through their associations and otherwise were industriously acting in concert to maintain or to raise prices. They issued uniform price lists and endeavored to maintain them and, to make it easier to secure the prices agreed upon, they often agreed to curtail the output of their mills" (pt. IV, p. xviii). Much evidence is presented in part IV of agreements among lumber manufacturers to maintain prices and curtail production. These agreements are almost exclusively of an informal nature without penalty for failure to keep the agreement. In some cases selling agencies were formed to handle the product of several mills. There is coöperation between these agencies in maintaining prices and apportioning orders (pt. IV, p. 469).
- (5) The advance in the price of standing timber has been even greater than that of the finished lumber. "That the increase has been nothing less than enormous is recognized by the men most familiar with the business" (pt. I, p. 25). For instance, identical tracts of timber in Mississippi changed hands at \$10,000 in 1897, at \$124,000 in 1907; in Wisconsin at \$1.25 to \$3.00 per acre in 1894 and at \$30 in 1908; in Idaho at \$240,000 in 1901 and \$2,500,000 in 1909; in Oregon at \$24,000 in 1892 and \$460,000 in 1907 (pt. I, p. 26).
- (6) It is not the manufacturers of lumber, as such, who have dominated the industry, brought about the increase of lumber prices, and absorbed the large profits. All the economies from large-scale production are secured by plants of moderate size, cutting under 25,000,000 feet a year.

If a single interest wishes to cut a large amount of timber, it is apt to build two or half a dozen mills, rather than one of extraordinary size. Except in the few localities where cheap and extensive water transportation makes it possible to establish a market for logs, large mills have followed large holdings; the large holdings have not arisen from any advantage of large mills (pt. I, p. 36).

Therefore, in any consideration of what tendencies exist toward a unified control of the lumber business, the fundamental point is the extent of the tendency toward a unified control of the standing timber. Any combination elsewhere would be wholly under the domination of a combination here . . . (pt. I, p. 41).

(7) A thorough investigation of the ownership of timber in three regions (Pacific-Northwest, Southern Pine Region, and Lake States) covering 80 per cent of the privately owned standing timber revealed remarkable concentration of ownership. Owners are defined thus:

"Wherever the Bureau secured information showing that the same interest owned half or more of the stock of two or more owners of record, these holdings were combined and counted as one" (pt. I, p.14).

In the investigation area it was found that (pt. I., p. 12):

3 holders own over 1/8 of timber privately owned
8 " "nearly 1/5 " " " "
22 " "over 1/4 " " "
48 " "nearly 1/3 " " " "
195 " " " " 1/2 " " " "

The largest three holders are the Southern Pacific Company (105.6 billion feet), the Weyerhaeuser Timber Company (95.7 billion feet), and the Northern Pacific Railway Company (36.2 billion feet).

The figures quoted above understate the degree of concentration in ownership for three reasons: First, there are numerous interrelations between timber holding corporations not amounting to control. Thus various timber companies, other than railroads, more or less closely associated with the Weyerhaeuser Timber Company, own 291.9 billions of board feet (pt. I, p. 101-2). Second, "the large holders control great quantities of timber land which they do not actually own." Third, "the large holdings, generally speaking, are of better quality than the small" (pt. I, p. 95). Maps of the large timber and land holdings are presented in parts II and III.

(8) The large holders are speculative holders. For instance, "the Southern Pacific and the Northern Pacific are not cutting any timber, and the logging operations of the Weyerhaeuser Timber Company are small compared with its holding" (pt. I, p. 100).

(9) The public land policy of the federal government has been the main cause of the present concentration of timber ownership. The great railroad land grants, cash sales, forest lieu legislation and the homestead, timber and stone laws are contributing factors. The largest three timber holdings in the United States originated from railroad land grants. For instance, in the heavily timbered section between Sacramento and Portland, the Southern Pacific Company is the dominating owner of a strip 680 miles long by 60 miles wide.

The report on *The Lumber Industry* is an excellent piece of scientific work. The investigations were thorough, the data carefully analyzed, the statistical method sound, the prices collected with unusual care from actual invoices, and the discussion of the economic principles involved is reliable and well written. The facts set forth do, indeed "clearly point to the desirability of maintaining the integrity of the national forests,

and, furthermore, suggest the desirability of the extension of the essential principles of the national forest policy to such publicly owned timber as now stands on lands outside of those reserves, including the forests of Alaska, possibly by bringing such lands within national forest limits (pt. I, p. 271)."

WARREN M. PERSONS.

Colorado College.

THE NEW YORK DEPARTMENT OF FOODS AND MARKETS. The state of New York has perhaps taken the lead in responding to the public demand for legislation to improve the present system of marketing farm products. Within the past few months it has enacted a law providing for the organization of cooperative associations, one to regulate the handling of farm products on commission, one to standardize the grades of apples, and (in April, 1914) one to establish a department of foods and markets. The head of this department is to be known as the commissioner of foods and markets; he is to be appointed by the governor for a term of six years; is to receive an annual salary of \$6000; and to have general powers and duties as follows: To investigate the cost of food production and marketing; to aid in the organization of cooperative societies; to hear complaints and suggestions and to obtain testimony, for which purpose he is given the power to issue subpoenas and compel the attendance of witnesses; to assist in the location and establishment of cooperative markets; to make rules and regulations for the packing, grading, storage, and sale of all food-stuffs; and to establish auction markets at such points in the state as may seem advisable.

In connection with auction markets, the law provides for the appointment of licensed auctioneers, who shall receive goods on consignment direct from farmers and other shippers. The fees to be charged by the auctioneers for their services are to be fixed by the commissioner of foods and markets, and an additional commission of 3 per cent is to be levied on all products sold, such sums to be paid into the state treasury and applied to the support of the department. The department is given power to employ men to inspect and determine the grade and condition of farm products, and is further charged with the publication of a daily bulletin, which shall set forth quotations in the principal markets of the state. The law also provides for the issue of bulletins containing information about standardization, packing, and transportation, and lists of names and addresses of producers and consignors so that buyers may know where to obtain various products.

Governor Glynn appointed as commissioner of foods and markets, Mr. John J. Dillon, the publisher of the Rural New Yorker, an influential farm paper which has been prominent in arousing interest in the problem of marketing and in the framing and passage of the law in question. The commissioner has his offices in New York City and has begun to organize the work.

It is too early to say just how valuable or successful this department will be in dealing with the marketing problem. But there is ample evidence that the framers of the law had an inadequate conception of the present organization of marketing and of the possibilities and methods for its improvement.

The provision for the establishment of auction markets was made without any study of the efficiency, methods, or limitations of the auction markets of New York, Boston, and other cities. In New York the auction companies handle California and Florida citrus fruits and California deciduous fruits, a few Northwestern box apples, and imported citrus fruits, pineapples, grapes, and bananas. There is also one auction company attempting to sell live poultry but its ultimate success is problematical, Numerous attempts have been made in various parts of the country to sell at auction other commodities than those enumerated, but they have always failed. It is to be hoped that a thorough study of the auction method both here and abroad will be made before the commission attempts the establishment of auction markets, which might be doomed to failure.

The publication of a daily bulletin with price quotations might easily be made a serviceable thing, but here again there is no intimation as to how these quotations shall be arrived at. Shall they be obtained independently by representatives of the state, or shall the present quotations obtained by expert market reporters be used in this bulletin? It ought also to be borne in mind that the present quotations are spread broadcast both in the daily papers and by means of daily sheets sent out by wholesale produce dealers.

According to a statement of the purposes of the law, published in the Rural New Yorker, it appears that the recently appointed commissioner probably has too optimistic a view of the possible achievements. Too much faith is placed in public markets, direct marketing, and wholesale terminal markets as correctives of the present system. The commission has begun its work by devoting its energies to the establishment of a coöperatively owned terminal market on the West Side in New York City. Adequate information as to the need of such a market and possible savings in marketing

costs do not appear to be at hand. The Rural New Yorker has been claiming for some time that the farmer receives only 35 per cent of the price finally paid for his products. This statement is extremely misleading, not to say incorrect. It does not take into consideration the fact that the great staple farm products, such as grain, live-stock, butter, and eggs, are marketed with a high degree of efficiency and on comparatively narrow margins.

Not until it is realized that on the whole the marketing machinery is highly efficient, and that the various middlemen perform necessary functions, can the marketing problem be attacked in a safe and sane manner.

L. D. H. WELD.

University of Minnesota.

The Chamber of Commerce of the United States of America devotes Bulletin No. 174 to The Story of Cotton. Its History and National and International Importance (Washington, pp. 526-537). There are charts showing the world's production of commercial cotton by countries, cotton yield per acre in the United States, the average price per pound since 1890, the value of crude cotton seed products, the value of exports and imports, and also a rough map showing the spread of cotton boll weevil.

The House Committee on Merchant Marine and Fisheries, under date of September 8, 1914, made a report on Government Ownership and Operation of Merchant Vessels in the Foreign Trade of the United States. (Washington, H. Rept. No. 1149, 63 Cong., 2 Sess., pp. 15). This contains the majority and minority views.

In Bulletin 128 of the Bureau of the Census on Supply and Distribution of Cotton for the Year Ending August 31, 1914 (Washington, 1914, pp. 30) it is noted that henceforth instead of two annual reports on cotton, one published in June and the other in October, there will be but one report; and in this will be included full statistics for the production, supply, and distribution of cotton.

The Twenty-eighth Annual Report on the Statistics of Manufactures of Massachusetts for 1913 (Boston, Bureau of Statistics, 1914, pp. 127) contains diagrams showing Massachusett's leadership in various industries, the value of products, the value added by manufacture, and unemployment and wages.

The Department of Labor and Industry of Maine has prepared

a Directory of the Manufacturing Industries of Maine (Augusta, 1914, pp. 130).

Circular No. 175 of the Agricultural Experiment Station of the University of Illinois deals with *Economic Factors in Cattle Feeding* (by H. W. Mumford and L. D. Hall), more particularly with cattle feeding conditions in the corn belt. There are seven corn-surplus states, Ohio, Indiana, Illinois, Missouri, Kansas, and Nebraska. This is a continuation of studies made in Circular No. 169.

Circular No. 177 of the same experiment station is entitled The Relation between Yields and Prices, by E. Davenport (pp. 8).

Mr. Charles A. Conant has prepared a pamphlet on the Effect of the War on the Supply of Investment Capital (pp. 44).

The Department of Trade and Commerce of Canada has published a pamphlet on *Grain Inspection in Canada*, by R. Magill (Ottawa, pp. 64). This gives a brief account of the methods of handling grain in western Canada in so far as these methods are the subject-matter of legislation. Interesting photographs clearly illustrate the operations of this industry—the cultivation of the fields, sampling, grading, and storage in elevators.

The Full Report of the Royal Commission on Agriculture of the Province of British Columbia (Victoria, 1914, pp. 398) contains maps and charts and a large amount of source material in regard to the agricultural development of this province. Of special importance is the section devoted to marketing coöperation and agricultural credit (p. 123), in which a survey is made of experiments and institutions tried in different parts of the world.

Corporations

The First Report of the Illinois Public Utilities Commission. On June 30, 1913, the legislature of Illinois passed an act establishing a state public utilities commission, and delegating to it the supervision and regulation of all public utilities within the state. The bill was vigorously opposed by representatives of the city of Chicago, upon the ground that the city should not be deprived of home rule in regard to its utilities. An effort was made to secure the enactment of a law establishing two commissions, one for the city of Chicago, and another to have supervision of all other utilities in the state, but this effort failed.

¹ House Bill No. 907.

The new commission was established on January 1, 1914. It has wide power of regulation, and is to control the accounts, rates, capitalization, and service of all utilities under its jurisdiction. It was provided that the terms of members should be six years and the salary \$10,000 per annum, which is the highest salary paid by any state to its public utility commissioners, with the exception of New York.

The first report² contains orders and decisions from January 1, 1914, to May 1, 1914. It is of particular interest because of some important questions therein raised.

That the commission intends to follow the policy of regarding the municipal utilities as monopolies and of refusing to encourage competition would seem to be indicated by its decision in the case of The Macon County Telephone Company v. The Bethany Mutual Telephone Company.³ The Bethany company applied for a certificate of convenience and necessity, permitting it to construct and operate a telephone exchange in territory already served by the Macon County company. This permission the commission refused, saying:

The policy of this commission will be to deny all applications to telephone companies where the application is for the establishing of an additional telephone system in a city or village where a telephone system is already in operation and is furnishing adequate service at reasonable rates.

This decision, however, does not seem to go as far as the policy of the Massachusetts Gas and Electric Commission, which has been to refuse approval to competitive franchises under all circumstances, on the principle that the power of regulation will secure adequate service at reasonable rates, and that, therefore, competition is always unnecessary and undesirable. The Illinois principle, however, is an important step toward the recognition of the essentially monopolistic character of the municipal utilities.

What effect the creation of a state public utility commission has upon the terms of franchises, fixing the conditions of service and rates, previously granted by municipalities under their legal powers to make such grants, is an important problem confronting the Illinois commission; and one which will inevitably arise in other states. In 1907 the city of Chicago granted franchises to its street railway companies, to expire in 1927. These franchises provide for what might be regarded as a virtual partnership between the city and

² Orders of the State Public Utilities Commission of the State of Illinois, No. 1.

³ Page 27.

the companies, the city to receive 55 per cent of the net receipts, above a 5 per cent return to capital. It was provided that a 5-cent fare should be charged, and the properties should be operated under the supervision of a board of supervising engineers composed of representatives of the city and the companies. The city has already obtained some \$14,000,000 as its share of net receipts.

What effect the establishment of the new state commission will have upon this arrangement between Chicago and its traction companies is as yet unknown. The city, the board of supervising engineers, and the companies have proceeded upon the assumption that the creation of this commission will not affect the local situation. Under the terms of the law it appears that all control is now vested with the state commission, and that, therefore, any further control by the city is illegal. On the other hand, it may be asserted that these contracts were entered into by the city when it possessed the power to make such contracts, and that, therefore, the commission cannot assume control until the expiration of the ordinances in 1927.

In view of the strong home rule sentiment which prevails in Chicago, it is thought likely that the commission will endeavor to respect the arrangement existing under the present ordinances as long as possible. Thus far it has done so. It has made no orders regarding the Chicago street railway companies except orders pertaining to the issuance of securities. That the city will deny the right and authority of the state commission to assume control of its street railways is indicated by its recent action, in the application to the commission of the town of Berwyn for a 5-cent street car fare to and from Chicago. In this case the city of Chicago, through its corporation counsel, denied the power of the commission to make such a requirement, and maintained that the act establishing the commission was a violation of the Constitution of the United States and of the constitution of the state of Illinois. However, the commission was able to decide upon the application of the town of Berwyn without passing upon these claims of the city of Chicago. But the matter will inevitably come to an issue. When the time comes no one can predict the attitude of the courts.

The report raises one question regarding capitalization which is of far-reaching consequence. The commission has granted its approval of the issuance of securities, the proceeds of which are to be used largely for the construction or enlargement of properties in other states. For example, the Chicago, Milwaukee and St. Paul Railway Company was authorized to issue \$30,000,000 of bonds, a large part

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of the proceeds of which are to be used in the construction of additional track, branch lines, terminal yards, water stations, passenger stations, etc., in South Dakota, Iowa, Idaho, Montana, and Michigan. These bonds were passed upon by the commission since some of the property against which the bonds were to be issued was located within the state of Illinois. Under these circumstances, the commission presumably was within its legal powers in passing upon the entire issue. The new laws creating public utility commissions in many other states authorize the commissions to pass upon all securities representing ownership in, or liens against, property within the state. Even though an issue of bonds be a lien against property in more than one state, it would appear that the entire issue must be approved by the commission representing a state having such a law. This is the principle upon which the Illinois commission has proceeded.

This anomalous situation is likely soon to give rise to trouble. Under this system, or lack of system, it may be that a utility corporation will be required to secure the approval of two or more state commissions before making an issue of securities. In this case the approval granted by one commission might be denied by another, or the various commissions might be unable to agree as to the amount of securities properly issuable, or as to the terms upon which the securities should be sold. It might prove exceedingly inconvenient to a corporation to divide the securities into several issues, each issue to be secured simply by the property within a particular state; and it might prove difficult to sell the securities thus divided if the entire property were an operating unit. It would appear that the only solution is federal supervision of securities in the case of utilities doing an interstate business.

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The Annual Report of the Commissioner of Corporations for the Year Ended June 30, 1914 (Washington, 1914, pp. 47) gives a review of federal supervision over corporations beginning with a suggestion made by Senator Newlands in 1899. The history and work of the Bureau of Corporations is reviewed and the functions of the new federal Trade Commission are summarized. The Trade Commission act is also reprinted as well as the new act to supplement existing laws against unlawful restraint and monopolies. There is a complete list of the reports issued by the bureau since its establishment.

From the secretary of state of Texas has been received Blue Sky

Law: Regulating the Sale of Stock of Corporations, Both Foreign and Domestic, with Forms (Austin, 1914, pp. 57).

The Public Utilities Commission of Ohio has published A Uniform Classification of Accounts for Electric Utilities, Effective January 1, 1915 (Columbus, 1914, pp. 112).

The Boston City Planning Board has made a report on the Larger Aspects of Passenger Transportation in Metropolitan Boston (Boston, City Hall, 1914, pp. 13, map). This treats of Boston's transportation problem from three points of view, physical, corporate, and financial. The physical deals with needed improvements in the service; the corporate covers mutual relations of the various public service corporations; and the financial, the method of paying for suggested improvements.

Students of corporation economics will find interesting data in the Preliminary Report of the Department of Public Service upon Interlocking Control of Public Utilities in the City of Chicago (Montague Ferry, commissioner, July 1, 1914, pp. 99). This contains a chart showing the membership of various persons upon the directories of the several Chicago public utility commissions.

A pamphlet by Mr. Samuel Insull, president of the Commonwealth Edison Company of Chicago, on *Centralization of Power Supply* (pp. 45) contains interesting illustrations of the economics derived from consolidating industrial plants engaged in furnishing light and power. There are many charts and tables illustrating the development of the industry under consideration.

Labor

The following bulletins have been received from the United States Bureau of Labor Statistics:

No. 146, Wages and Regularity of Employment and Standardization of Piece Rates in the Dress and Waist Industry: New York City (Apr. 28, 1914, pp. 313), by N. I. Stone.

No. 150, Wages and Hours of Labor in the Cotton, Woolen, and Silk Industries, 1907 to 1913 (May 11, 1914, pp. 185).

No. 151, Wages and Hours of Labor in the Iron and Steel Industry in the United States, 1907 to 1912 (May 15, 1914, pp. 550).

No. 153, Wages, and Hours of Labor in the Lumber, Millwork, and Furniture Industries, 1907 to 1913 (May 21, 1914, pp. 160).

No. 154, Wages and Hours of Labor in the Boot and Shoe and

Hosiery and Underwear Industries, 1907 to 1913 (May 22, 1914, pp. 181).

No. 155, Compensation for Accidents to Employees of the United States. Report of Operations under the Act of May 30, 1908 (Sept. 17, 1914, pp. 331).

No. 160, Hours, Earnings and Conditions of Labor of Women in Indiana Mercantile Establishments and Garment Factories (Oct. 16, 1914, pp. 198), by Marie L. Obenauer and Frances W. Valentine. This is a continuation of the studies on women in industry.

The Fourth Annual Report of the United States Bureau of Mines (pp. 101) summarizes the statistics of accidents in this industry. During the past year more than 3500 men were killed and more than 100,000 injured in the mining and metallurgical industries of the country. One half of the fatalities and one quarter of the injuries are regarded as easily preventable. The director makes a plea for more extended investigations on the part of the federal government in order to prevent accidents.

The First Annual Report of the Commission on Industrial Relations (Washington, 1914, pp. 79) contains a brief analysis of the testimony which has been taken by this commission, arranged under topical headings. Part of this evidence was secured at public hearings and a part through research investigation.

In November, 1913, the Senate passed a resolution ordering a compilation of Federal and State Laws Relating to Convict Labor. The results of this inquiry have been published as a senate document (Washington, Sen. Doc. No. 494, 63 Cong., 2 Sess., 1914, pp. 238). Difficulty was experienced in obtaining statistical data, as no funds were provided for the investigation.

Bulletin 67 of the Department of Labor of New York deals with International Trade Union Statistics (pp. 24).

The Opinion of the Attorney General of Minnesota on the Constitutionality of the Minnesota Minimum Wage Law and the Decision of the Oregon Supreme Court on the Constitutionality of the Oregon Law has been published as a pamphlet by the Minimum Wage Commission of Minnesota (pp. 32).

The Minimum Wage Commission of Massachusetts has published two additional bulletins: No. 4 on Wages of Women in the Candy Factories in Massachusetts (Boston, 1914, pp. 37); and No. 5, Wages of Women in the Laundries in Massachusetts (pp. 41).

The Legislative Reference Bureau of Illinois has issued a pamphlet on Workmen's Compensation Act and Rules of Procedure (Springfield, pp. 51). This has a summary of the appropriations which have been made in different states for the administration of compensation bureaus. The general rules of the Industrial Board are given and also tables of compensation.

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The Employers' Liability Commission of New Jersey has published a Tabulation of the Causes of Accidents, compiled from the reports of the Department of Labor of New Jersey (Trenton, 1914, pp. 30).

The Third Annual Report of the Industrial Insurance Department of Washington for 1914 (Olympia, 1914, pp. 125) notes that administrative cost is decreasing. It is believed that the employers are not paying any more than they were formerly paying to the casualty companies for the limited protection they were able to give and that the injured workmen are receiving at least three times as much as under the former system. It is, however, difficult to reach the casual employer.

The American Association for Labor Legislation (131 East 22d St., New York) has published Standards for Workmen's Compensation Laws, in which an effort is made to standardize and make uniform the various features of workmen's compensation laws (pp. 12).

The Third Report of the Factory Investigating Commission of New York, 1914 (Albany, pp. 676) is devoted primarily to a wage investigation which was undertaken in certain industries, more particularly the confectionary and paper box industries in New York City, and to the recodification of the labor law. A long appendix of more than 200 pages on the minimum wage legislation, by Irene Osgood Andrews, is included, and also a bibliography of about 25 pages on the minimum wage by C. C. Williamson.

Dr. Frank O'Hara, associate professor of economics of the Catholic University of America, Washington, prepared a report for the Oregon Committee on Seasonal Unemployment, *Unemployment in Oregon. Its* Nature, Extent, and Remedies (pp. 39).

The Fourth Anniversary Bulletin of the Joint Board of Sanitary Control in the Cloak, Suit and Skirt and the Dress and Waist Industries, October 31, 1910—October 31, 1914 (31 Union Sq., New York, pp. 48), is an optimistic summary of the work of this board in the past with anticipations as to the future. Charts and illustrations impress upon the reader the problems which are involved and some of the reform work which has been accomplished.

Money, Prices, Credit, and Banking

The United States Mortgage and Trust Company of New York has issued its twelfth annual edition of Trust Companies of the United States (1914, pp. 544). Resources of trust companies increased during the past year \$450,000,000. A digest of state regulations in regard to the character of business allowed in each state and the reserves required by law are given; also a chart showing the growth in number of trust companies from 1885 to 1914. No other publication presents so complete a report of this phase of the banking business.

Public Finance

NATIONAL FINANCE. Two portions of the volume on Wealth, Debt and Taxation in preparation by the federal Census Bureau, similar to the volume on that subject for 1902, have been published. These are National and State Indebtedness and Funds and Investments, 1870-1913 (Washington, Bureau of the Census, 1914, pp. 203) and Taxation and Revenue Systems of State and Local Governments (Washington, Bureau of the Census, 1914, pp. 275). The first mentioned contains a classified statement of the federal debt by years for the period of 1894 to 1913; a summary statement of the debts and funds of the individual states in 1912 (or 1913); a summary statement of the debts and funds of the states as a whole for the years 1870, 1880 and 1891-1913; a summary statement of the debt and funds of each state by years for 1880 and 1890-1913, accompanied by a descriptive text; and a statement for each state, for the period 1893 to 1912 (or 1913), giving by years the amount of each issue of bonds and the investments of each fund. The analyses in the summary tables are extremely limited and might advantageously be extended so as to include a summary of the growth of different classes of indebtedness and funds, and a grouping of geographical divisions.

The total indebtedness of the states at the latest date for which figures were available was \$422,796,525, comprising \$364,836,427 in bonds, \$38,530,142 special debt to public trust funds, and \$19,429,956 floating debt. The debt less sinking funds was \$345,815,954. If we deduct the cash in funds other than sinking funds the net debt will be about \$215,000,000. This figure includes \$38,530,142 of "special debt to public trust funds" which really represents nothing but an obligation of the state to appropriate for certain public purposes sums representing the estimated interest on the debt. If we deduct this amount the net debt will stand at about \$186,500,000. As will

appear below, this is considerably less than the amount of incomeproducing securities held by the states in public trust funds.

The per capita debt less sinking funds in 1913 was \$3.57 as compared with \$9.15 in 1870, \$5.48 in 1880, \$3.37 in 1891, \$3.10 in 1900, and \$2.67 in 1909, the lowest figure recorded. The highest per capita figure in 1913 was that for Massachusetts, \$22.78. About \$14.50 of this amount, however, represents contingent debt incurred on behalf of local bodies. The other states with per capita figures over \$5 are Arizona (\$13.28), Virginia (\$10.46), New York (\$9.05), Rhode Island (\$9.02), Louisiana (\$7.89), Nevada (\$6.70), Connecticut (\$6.12), Alabama (\$5.95), Idaho (\$5.92), Maryland (\$5.56), Tennessee (\$5.32). In thirteen states the per capita figure was less than \$1, while in Pennsylvania the sinking fund exceeds the debt.

The bonded debt in 1913 was \$364,836,426, against which the states held sinking funds of \$76,680,571, leaving a net bonded debt of \$288,155,856, more than 57 per cent of which was represented by the debts of Massachusetts and New York. The total bonded debt in 1870 was \$313,887,639. It steadily decreased until 1896 when it was \$174,810,210. Since that date there has been a steady increase, the figure for 1909 being \$251,146,173. Between 1909 and the latest date available, a period of three years, in the case of some states. and four years in the case of others, there has been an increase of nearly \$114,000,000. An examination of the figures shows that five states are responsible for \$94,552,669 of this increase; New York, \$68,472,000; Massachusetts, \$7,614,500; California, \$6,967,000; Maryland, \$6,309,169; Conecticut, \$1,190,000. In New York there has been an increase of \$46,407,000 in canal bonds and \$23,000,000 in highway bonds. Approximately half of the increase in the other four states is accounted for by the issue of highway bonds. The floating debt of the states also increased from \$10,007,912 to \$19,429,956 during the same period.

The funds held by the states amounted in 1913 to \$490,304,975, comprising \$136,975,610 in cash and \$353,329,365 in securities. If we deduct from the latter figure the sinking funds and the special debt obligations to trust funds, there remains \$237,818,652 of securities in funds the income of which is available for meeting state expenditures. Over \$216,000,000 of these securities are held in common school funds and the greater part of the remainder in funds for collegiate and university education. Of the securities in the common school funds \$67,734,108 are held by Texas and \$22,658,381 by Minnesota. South Dakota's common school fund amounts to over

\$10,000,000 and eleven other states (all, with the exception of Massachusetts, New York, New Jersey, and Indiana, west of the Mississippi) have funds of between \$5,000,000 and \$10,000,000. In 1880 the securities in funds other than sinking funds, and special debt to public trust funds, amounted to \$48,309,351. The most marked increase in the securities in such funds has taken place since 1900, in which year they amounted to \$105,376,212.

These are some of the more evident facts which can be gleaned from this report, the material in which would repay careful analysis. The total funded debt of California (p. 87) is given as \$10,178,750 instead of \$10,178,250. There is also an inconsistency between the amount of Virginia's special debt to public trust funds as stated on pages 17 and 193. An explanation of this inconsistency may be found on page 72.

The second pamphlet, on Taxation and Revenue Systems of State and Local Governments, follows the lines of the corresponding portion of the 1902 volume, comprising a summary of the constitutional and statutory provisions in force in regard to state, county, and municipal taxation in each state. The report does not cover sources of revenue other than taxation, as the main title might seem to indicate. A separate paragraph, it is true, is devoted to school revenue in each state, but the statements vary greatly in completeness. Thus in the case of Texas it is stated that the constitution establishes a permanent school fund from the proceeds of the sales of public land and from other sources, and the interest derived therefrom and the school taxes make up the available school fund, but from the statement in connection with Minnesota no one would learn that there was any such fund although the first pamphlet shows that the securities in the common school fund in that state amount to over \$22,000,000.

As it is, however, the report contains a mass of information not brought together elsewhere in regard to the taxation systems of the states. Unfortunately, a cursory examination of the portion dealing with Rhode Island, the state with which the writer is most familiar, does not tend to inspire confidence in its accuracy in details. It is stated (p. 204) that no shareholder is liable to taxation on shares held in any corporation within or without the state when the corporation is taxed for an amount equal to the value of its property and that, when the corporation is taxed for less than this amount, the shareholder is taxed only for the difference between the market value of each share and the proportionate amount per share at which the corporation was last taxed. Under the act of 1912 shareholders in

corporations without the state are taxed at the rate of four mills on the dollar with no deduction for any taxes which may be levied on the corporation in the state in which it is situated. The only exception is in the case of holders of shares in national banks situated outside the state, the shares of which are taxable where the bank is situated.

On the same page it is stated that actual indebtedness may be deducted from personal property liable to taxation. Under the act of 1912 deduction for debts can be made only against money on hand at interest, or on deposit, or debts due from others. On page 205 is the statement that the taxes on shares of national banks collected by the state treasurer are apportioned to the towns or cities in which the banks are situated. As a matter of fact, this is done only in the case of the shares owned by non-residents of the state. On page 207 it is stated that towns may divide themselves by vote into school districts. The district system was abolished more than ten years ago. On the same page it is stated that public service corporations given a franchise by a municipality are required by state law to pay such portions of their gross earnings, not to exceed three per cent, as may be agreed upon by the terms of the franchise grant. This is correct, but it fails to note that subsequent acts granting exclusive franchises to the street railway and electric lighting companies in Providence authorized a tax of between three per cent and five per cent of the gross receipts of those companies. The street railway company has for many years paid five per cent in Providence.

No mention is apparently made of the special tax of one per cent of gross earnings levied on street railways under chapter 216 of the public laws.

HENRY B. GARDNER.

Taxation of Corporations. The Bureau of Corporations has published another instalment of its studies on the taxation of corporations. This last is entitled Taxation of Corporations. Part V. Mountain and Pacific States. Report of the Commissioner of Corporations on the System of Taxing Manufacturing, Mercantile, Transportation, and Transmission Corporations in the States of Montana, Idaho, Wyoming, Colorado, Utah, Nevada, Arizona, New Mexico, Washington, Oregon and California. September 8, 1914 (Washington, 1914, pp. xiii, 236).

There is no doubt as to the general usefulness of this series of publications. Just because they are so good it is worth while to urge that they be made better.

The following criticisms apply only to the statements concerning

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California. They are submitted in the hope that they may call out like criticism as to other states and lead to a new edition, "revised and corrected." They are for the most part errors or half-truths due to excessive condensation. Some of them arise from the limited selection of companies to be studied. Thus with the intent to deal only with manufacturing, mercantile, transportation and transmission companies, difficulties of statement arise when other classes have to be mentioned in order to cover the system.

Specific errors to be noted are:

Page xi. "Special taxes are levied [i.e., in California] on all corporations solely for state purposes, and yield about 76 per cent of the states taxes." This statement while technically correct, conveys in its context a wrong impression. It is equally true that all corporations are taxed for local purposes. The line drawn between property taxed locally and that taxed by the state should have been indicated.

Same page. "In 1912 California collected more than \$11,000,000 from corporations, an amount exceeded only by Pennsylvania and New York." This is also possibly technically true if it specifies that the figures refer to the moneys collected and retained by the states alone. But the natural inference that California corporations pay more taxes, all told, than do the corporations of Pennsylvania and New York is not true.

Pages 2 and 3, table. The statement that manufacturing companies are not taxed locally "on all property" (which here omits the franchise) and are taxed locally "on property not used in the business" is incorrect. Such companies are taxed locally on all property, except the franchise, Whether it be used in the business or not, the franchise is taxed for state purposes. Mercantile companies should also have been cared for in the statement. They are treated just the same as manufacturing companies.

Page 4. The California license tax is described correctly elsewhere in the report, but here the compiler evidently forgot that the Mulford case, which may be bad law, has not been reversed and that the license tax does not apply to foreign companies.

Page 13, table. That the state board of equalization also assesses the taxes on banks and insurance companies is omitted, and that it assesses water companies on gross receipts is implied although not true. So far as the limited list under investigation is concerned, the statement is correct.

Page 202. "Chief features. First." The constitution does not "require" separation of sources. It specifically permits of a state ad valorem tax.

"Second." The state does not tax all public service companies on gross receipts. Water companies are not included. It also taxes bank stock on book value. Moreover, the tax on the selected public service companies is expressly declared to be a tax on the property and franchises although measured by the gross receipts. This is a distinction which is legally of great importance.

Again on the same page the distinction between taxable stocks and bonds and non-taxable does not turn solely on the situs of the property of the companies. It turns on the home of the company also. But that point is of small practical interest anyway because the important thing is that under the new system banks and insurance companies may hold exempt from taxation stocks and bonds of foreign corporations.

Page 203. Here and elsewhere it is stated that the franchise tax is levied on "certain other companies," which seems to imply positive selection. The fact is, it is "all other companies" except those like the churches, a very few educational and similar classes all of whose property is all exempt after the old American traditions.

Page 204. As there are two ways of apportioning interstate receipts, (1) road mileage and (2) shipment mileage, the phrase "proportionate interstate receipts" is inexact. California uses shipment mileage. Again, insurance companies are allowed to deduct from the taxes due the state the taxes paid locally on their real estate. The tax on banks covers all banks, not "certain" ones, and is based on paid-in capital stock, surplus and undivided profits (not "the value of shares of capital stock") less the assessed value of the real estate as assessed for county (not municipal) purposes. "With deduction for locally assessed real estate" is too vague.

Part II, dealing with the Details as to the Constitution and Statutes, is apparently by another hand, for the analysis is much more exact and the language carefully chosen.

But on page 208, where it is stated that "credits with building and loan associations are treated as an interest in the property of the corporation and are not assessed to the creditors or owners," no mention is made of the important fact that savings bank deposits are likewise included.

On page 222, the loss from the repeal of the corporation tax is given as \$1,600,000; this, it is not stated, is the biennial loss, not the annual.

While the above array of errors makes a bad showing, they are not perhaps so bad as the assembling of them appears. With a few

other minor exceptions the rest of the compilation, so far as California is concerned, is correct.

I am quite aware how hard a task it is to give a correct analysis of the tax laws of a state even when one has lived with them intimately for years. But as these federal compilations are used by attorneys, accountants, and others where the payment of large sums of money is involved, the difficulty of exact statement is not an excuse for falling short. The first two ambiguities referred to are alone sufficient to make a would-be investor in California corporations timid. Yet the fact is corporations get as "square a deal" in tax matters in California as anywhere. The report itself refers to the elaborate care taken to fix the corporation tax rates in 1913 at as nearly as might be the same burden as other property bore. Official statements concerning taxes should be, if anything, more exact than concerning other matters, because they refer to matters which come down to specific exactions of definite sums of money and deal with liens on property which may be serious if neglected or misunderstood.

CARL C. PLEHN.

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The First Biennial Report of the Tax Commission of the State of South Dakota, 1913-1914 (Pierre, 1914, pp. 532) has appeared. More than 100 pages are devoted to a prepared codification and amendment of the revenue laws. The commission also has a long list of recommendations as to legislation.

The Fourth Annual Report of the Tax Commission of Ohio, 1913 (Columbus, 1914, pp. 504; addenda, pp. 24) is devoted to the routine statistical tables.

The Sixth Annual Report on the Statistics of Municipal Finances of Massachusetts, for 1912 (Boston, Bureau of Statistics, 1914, pp. 257) shows the progress in standardizing the accounting systems of Massachusetts. The comparative tables are thus annually becoming more and more valuable.

Mr. William Tindall, secretary to the Board of Commissioners of the District of Columbia, has compiled Methods of Municipal Assessment and Taxation in the District of Columbia, completed to September 1, 1914 (Washington, 1914, pp. 109).

The Report of the Tax Commissioner for the Biennial Period 1913 and 1914 of Connecticut (Hartford, pp. 260) is unusually full. It contains a discussion of assessment, notes the decrease of the in-

heritance tax, refers to the taxation of the New York, New Haven and Hartford Railroad; and the appendix contains forms of assessment, a summary of the recent decisions of the Supreme Court of Errors relative to the subject of taxation, and addresses delivered at the annual conferences of state tax associations held at Hartford in 1913 and 1914.

The report of the Special Commission of Nebraska on Revenue and Taxation, 1914 (Lincoln, 1914, pp. 248) has chapters on the general property tax which is severely criticised, the real estate tax, mortgage tax law, taxation of corporations, separation of sources of revenue, problems of administration, income taxation, the inheritance tax law, occupation tax on manufacturers and dealers in liquors and tobacco, and the taxation of grain dealers.

There is also to be noted the Proceedings of the Fourth Biennial Conference Convention of the Tax Commission and the County Assessors of the State of Kansas, held at Topeka, December 8-9, 1914 (Topeka, 1914, pp. 84).

The Legislative Reference Bureau of Illinois has published Illinois Party Platforms, 1914, with Select Bibliographies of Available Material on File in the Legislative Reference Bureau, Relating to the Subjects Enumerated Therein (Springfield, pp. 43). For example, on the subject of taxation there is a two-page list and on minimum wage a page and a half.

The New York Tax Association has for distribution What the Tax Survey Shows, a report of the Committee on Taxation of the Conference of Mayors and Other City Officials, and the resolutions of the conference held at Auburn, June 3-5, 1914 (pp. 15).

The Twenty-fourth Annual Report of the New York Tax Reform Association for 1914 (29 Broadway, New York) gives the usual summary of legislation and the compilation of tax amendments to the state constitution during the past year.

The National Tax Association (15 Dey St., New York) has distributed the Report of the Committee on Taxation, presented at the meeting of the American Bar Association, October 20-22, 1914 (pp. 25). The report is chiefly concerned with the legal and administrative phases of the law imposing an income tax upon individuals. The committee avoids discussion of the wisdom of the tax itself. "Apart from specific defects the structure and language of the act as a whole is open to the gravest objections. A revision of the law should there-

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fore extend to its form as well as to its substance. The entire act should be reconstructed, and there should be placed upon the statute book an income tax law so arranged and expressed as to be convenient for reference, consistent in all its parts and capable of being understood by a citizen of average intelligence."

The National Tax Association has also for circulation: Make Real Tax Reform Possible in Oregon by Voting (pp. 24), a pamphlet first issued by the Legislative Tax Committee of Oregon; and Concerning the Tax Amendment to the Constitution of Kansas. The Tax Commission of Kansas, in October, 1914, compiled a series of letters from various authorities and experts on the proposed amendment to the constitution. These are brought together and reproduced in this pamphlet.

In the *Proceedings* of the Academy of Political Science in the City of New York, for October, 1914 (New York, Columbia University), containing a collection of articles on the revision of the state constitution, there is a paper on "Constitutional provision for a budget," by Frederick A. Cleveland (pp. 141-188).

Demography

Bulletin 127 of the Bureau of the Census deals with Chinese and Japanese of the United States (Washington, 1914, pp. 50). A large part of this material has been previously published in the population rolumes of the Thirteenth Census and in the bulletins for the several states. The principal new part, however, deals with agricultural statistics.

The Commonwealth Bureau of Census and Statistics of Australia has published Australian Life Table, 1901-1910 (Melbourne, 1914 pp. 75). Tables are based upon the mortality experience of the commonwealth for ten years. Those relating to male lives are printed on white paper and those relating to female lives on tinted paper. The tables of elementary values which form the mortality basis of the succeeding monetary tables are a portion of the results of an extensive investigation of mortality experience of the commonwealth and its component states for the three periods, 1881-1890, 1891-1900, and 1901-1910. The monetary tables comprise, for each sex, for the rates of interest 3 per cent, $3\frac{1}{2}$ per cent, 4 per cent, $4\frac{1}{2}$ per cent, and 5 per cent, the usual commutation columns and the annual and continuous values for life annuities, single premiums, and annual premiums.

Social Problems

Housing Reports. Among American housing documents the First Annual Report of the Homestead Commission, 1913 of Massachusetts (Boston, Pub. Doc. 103, 1914, pp. 336 is unique in its comprehensiveness, and in its emphasis on municipal cottage construction, on cheap loans from the state for the building of workingmen's houses, and on municipal land purchase for housing purposes. The commission was created in 1911. Its prior publications have appeared as House bills or labor bulletins (as bulletin 88, Homesteads for Workingmen, 1912). Only 64 pages of this "first annual report" are devoted to the activities and recommendations of the commission; the remaining 250 pages summarize the housing policies of the nations and provinces of Europe, Australasia, and South America. The report deals chiefly with the organization and suggested activities of local planning boards (ch. 494, Acts of 1913), methods of financing cottage construction, tax exemption of \$2000 on each house, assessment of betterments, a defense of state aid for home building, statistics of infantile mortality and congestion, and recommendations. The major contribution of this document is its elaborate appendix which is a highly valuable accession to housing literature. It contains the questionnaire (sent to diplomatic and consular officers) and the replies from 35 nations or provincial governments.

There is some evidence of carelessness in preparation of the report and of the use of data at second hand and without discrimination (e.g., p. 48, the quotation from Dr. Darra-Mair's "Back-to-Back Houses" via the Jahrbuch der Wohnungsreform of 1911; Darra-Mair is also misspelled as Darr-Mair). Crude infantile mortality rates are quoted (pp. 51-53) to show "the urgency of the work of improving home conditions," though the correlation is far from clear and is indeed shown to be dubious by the distribution of infant deaths in Boston. There is also a tendency to unsubstantiated and quite debatable generalizations (e.g., the first and the last sentences on page 49). Nevertheless the compilation is highly useful and the bills of the commission are good.

Several papers which deal with the radical measures for housing and town planning recently enacted in Canada are incorporated in the Report of the Fifth Annual Meeting of the Commission on Conservation of Canada held at Ottawa, Jan. 20-21, 1914 (pp. x, 287). The most important of these are G. Frank Beer's report on the "Work of the Toronto Housing Co." (pp. 116-120) and the texts of the Quebec "Act to assist in the construction of dwelling houses," the Ontario

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"Act to encourage housing accommodation in cities and towns," and the Alberta "Act relating to town-planning" (pp. 239-258).

The Report of the Departmental Committee Appointed by the Local Government Board for Ireland to Inquire into the Housing Conditions of the Working Classes in the City of Dublin, Cd. 7273 (Dublin, Alex. Thom. & Co. Ltd., 1914, pp. iv. 30, illus.), examines housing conditions of 7500 persons in municipal houses, 24,500 in houses built by philanthropists and the 162,000 tenants of commercially built dwellings. Occupations, incomes, rents and crowding are briefly treated. Special sections deal with municipal powers for house construction and with details of finance of the housing schemes of the Dublin Corporation and of the private companies. There are recommendations for the extension of municipal housing and control of private building.

The Housing and Town Planning Conference of the Institution of Municipal and County Engineers, Great Yarmouth, July 16-17, 1913, edited by Thomas Cole (London, E. & F. Spon Ltd.; New York, Spon & Chamberlain, 1914, pp. xvi, 227), contains nine papers, each followed by discussion. The papers are with but one exception written by city engineers or city surveyors and deal chiefly with the designing of estates and houses and with the factors which determine building costs. The housing schemes of Sheffield are outlined by C. F. Wilse; of Birmingham, by H. E. Stilgoe; of Ruislip-Northwood, by W. Louis Carr. The address of Reginald Brown, "The housing problem and its solution" (pp. 142-207) offers useful details concerning the design, equipment, and costs of houses erected by local authorities throughout England. The "solution" offered is meager.

JAMES FORD.

The Second Annual Report of the Chief of the Children's Bureau to the Secretary of Labor for the Fiscal Year Ended June 30, 1914 (Washington, pp. 19), notes that a large share of the attention of the bureau has been devoted to the subject of infant mortality and the improvement of the records of birth registration. Attention has also been given to the subjects of child labor, mothers' pensions, juvenile court, feeble-mindedness, and recreation.

Bulletin No. 587 of the United States Bureau of Education contains the papers presented at the meeting of the Vocational Guidance Association, October, 1913, on *Vocational Guidance* (Washington, 1914, pp. 94).

From the Children's Bureau has been received Infant Care, by Mrs. Max West (Washington, 1914, pp. 87).

Bulletin No. 2 of the Homestead Commission of Massachusetts (Boston, 1914, pp. 12) contains Information and Suggestions for City and Town Planning Boards.

A bulletin of the Russell Sage Foundation Library for December, 1914, has a three-page bibliography on *Emergency Relief*, prepared by F. W. Jenkins and E. L. Black (130 East 22d St., New York).

Insurance

Workmen's Compensation in Ontario. The workmen's compensation act of Ontario (4 Geo. V., ch. 25, assented to May 1, 1914) carries no important provision not before known in the world's practice. Yet, taken all in all, it is of much more than ordinary interest, especially for us in the United States. It is radical; it is the seventeenth compensation law in the British Empire; and its field is near us, in that Canadian province which, in an industrial way, is the most advanced and the most closely related to this country.

As other British acts, it naturally shows many influences from earlier legislation of the mother country. The provisions for the inclusion of industrial diseases (section 100 and schedule 3) are taken outright from the statute of the United Kingdom. So, too, are a number of other substantive provisions and a larger number of definitions, distinctions, and minor rules and policies. But, on the whole, the Ontario law is most notable for its wide departure from what had come to be considered British standards. Rather it is American in general character and most like the more radical American statutes. It has some conspicuous likenesses to the New York act of 1914.

In organic relation to the compensation law is a new employers' liability law. In fact, the two laws are but parts of the one act, part I covering compensation and the brief part II covering liability. Neither part applies to "farm labourers or domestic or menial servants or their employers" (109); and, apparently, neither applies to the general run of public employments, but only to private industry and such industry conducted by minor public bodies as may be brought under part I (105; 2). But, with the exceptions noted and to be noted, the two parts together are to cover all industrial occupations. Of the liability law little needs to be said here. It imposes upon the employer no liability except for defects in ways, works, machinery, and the like, or for negligence of himself or his servants (106); but, when there is such defect or negligence, the common law defenses of assumed risk and the fellow servant cannot be used (106; 107) and contributory negligence becomes comparative negligence (108). In

other words, it is a modern liability law, and a good one—if such a thing there can be.

The compensation law, or part I, is intended to cover a broad range of enumerated occupations: "Any trade or business connected with the industries of lumbering, mining, quarrying, fishing, manufacturing, building, construction, engineering, transportation, operation of electric power lines, waterworks and other public utilities, navigation, operation of boats, ships, tugs and dredges, operation of grain elevators and warehouses; teaming, scavenging and street cleaning; painting, decorating and renovating, dyeing and cleaning; or any occupation incidental thereto or immediately connected therewith" (73). And the trades or industries thus generally indicated are elsewhere listed in more specific terms in 44 classes of a schedule 1, and 7 classes of a schedule 2, schedule 1 including the great part, presumably all or nearly all of manufacturing, mining, and construction, while schedule 2 includes transportation, communication, and public utilities. The classes are strikingly like the groups of the New York act, identically the same in nearly half the cases. Nor should the resemblances cause surprise, since it was understood that there was mutual consultation in the preparation of the bills for the state and the province.

Clearly, some important fields of occupation are not to be affected by the compensation system, but are to be kept under the liability law of part II. Here are stores of every grade and size, hotels, restaurants, saloons, theatres, billiard rooms, bowling alleys, bath houses, barber shops, photograph galleries, and so on. Doubtless, too, the close scrutiny which will attend the administration of the law will reveal some other exclusions, which were not intended; for, as the New York act has shown, the greatest care in enumerating can not produce a perfect list. The Ontario law, however, will not develop the many incongruities from which the New York law can be saved only by forced interpretations of terms. It includes several specific industries which are strangely omitted from the New York lists; it employs such generously comprehensive terms as manufacturing, construction, engineering, and transportation; and it makes provision for the administrative extension of the system (73; 74, 1).

There are other limitations of the scope of part I. The compensation law does not apply—nor the new liability law either, apparently—to casual employment, to persons engaged in clerical work and not exposed to trade hazards (2, 1, p), to out-workers, or to those not employed "for the purpose of the employer's trade or business" (3; 4). The Ontario compensation law, however, makes one noteworthy ad-

vance in extending its benefits not only to paid members of the employer's family (11) but also, at his option and within limits, to the employer himself (12). This permitted inclusion of employers is not unknown on the continent of Europe; but, as far as I know, it is found only there, in Ontario, in Washington, and in California.

The awards of the new Canadian law will prove rather more liberal than can be had in most other parts of the world. In cases of disability continuing more than seven days, the awards run from the first day of the disability (3,3). The general basis of the awards, 55 per cent of the lost earnings (33; 37; 38), is not extremely high; but the payments are long continued. Payments to a widow do, indeed, cease at her remarriage; but, at such an event, she receives in a lump sum the equivalent of two years' payments (34, 1), and any payments which had been made in behalf of her orphan children are continued as before, until they reach sixteen years (34, 2). Awards for disability, partial or total, temporary or permanent, run as long as the disability continues (37-40); and the amounts have no fixed minimum or maximum, except as there is a maximum of \$2000 a year at which earnings of employee or employer may be reckoned (41). Nothing like a life annuity of \$1100 can be had under any other compensation law.

For the purposes of general administration there are most of the familiar arrangements of the ordinary American statute: as to notices (20; 99), against agreements to waive rights (16), subjecting settlements to official approval (17), forbidding contributions by employees (18), against the attachment of awards (19), requiring submission to medical examinations (21), authorizing reviews (23) and commutations (25-28) of awards, allowing employers credit for advanced payments (42), directing enforcement by judicial process (61; 63), and many others. The optional substitution of mutual benefit schemes, of at least equal advantage to employees, not uncommon in America and the general rule in British acts, is not allowed in Ontario. There are no definite ratings of specific injuries. Nor are there any allowances for medical or surgical treatment, even in cases of fatal injuries.

The most striking features of the act are seen in the general arrangements for administering the compensation system. For the first time in the British Empire, for the first time outside of the United States, a compensation law both compels insurance in a state fund and is administered by a specially constituted commission. Employers for the time being within the 44 classes of schedule 1 (manufacturing, mining, construction) are required to insure their liabilities under part

I by contributing to an "accident fund" from which awards will be paid (69, 1); and they thus are released from individual liability (5). Employers in the 7 classes of schedule 2 (transportation, communication, public utilities) are held liable each by himself (4); but they may be required to insure otherwise than in the state fund (29), or to pay commuted lump sums (28) or give security (31, 2) for awards made against them.

For the control of these different liabilities, as well as for the general administration of the act, or at least part I, there is established a "Workmen's Compensation Board" of three, appointed by the lieutenant governor in council (45), to hold office during good behavior or until the age of 75 (50). The salaries, \$10,000, \$8,500, and \$7,500, are higher than are paid in New York, and are much higher than are paid in any other place. For the general expenses of the board an annual appropriation of \$100,000 is authorized (68); although expenses are to be covered in part by the premiums of the insured (85) and by assessments upon employers in schedule 2 (103). In short, it is the manifest purpose of the province to have a board of the highest character and efficiency. Members are required to give all of their time to their duties (51), and they are forbidden to have any interest, direct or indirect, in any industry affected by the act, in any company for the insurance of workmen's compensation or employers' liability, or in any safety devices (56).

The board has the routine administrative powers which have been thought necessary in this country: to appoint its staff (59), to make regulations subject to the approval of the lieutenant governor (64). to summon and examine witnesses (55), to require returns from employers (78), to examine books (79), to visit and inspect premises (81), and to work through individual members or authorized agents (62). It decides as to awards (23) and the manner of payment (63), with general power to review (60, 3) and commute (25-28) payments; and in all these and other matters it has unusually broad personal discretion, free from the constraint of prescribed rules (74, 2, 4; 84, 1, 2). It has large power to vary the practical meaning or scope of the law. It may extend the list of industrial diseases (2.1. h). It may readjust the classes of schedule 1 (74, 1, a), subdivide them (74, 2), add to them from schedule 2 (69, 2; 74, 1, b) or from outside (74, 1, c). It may transfer any industry from schedule 1 to schedule 2, with its individual liabilities, (74, 4), or even exclude it altogether from part I, and so from the compensation system (74). These are high functions. And the board is endowed with high powers to perform them. It has equal authority with the Supreme Court in compelling witnesses and records (55). It has full authority to decide whether a case of accident should go to the courts as an action at law or come before itself as under part I (60, 2, c; 64, 4). And, in these and other premises, its authority is not only exclusive in the first instance but quite final.

The Board shall have exclusive jurisdiction to examine into, hear and determine all matters and questions arising under this Part and as to any matter or thing in respect to which any power, authority or discretion is conferred upon the Board, and the action or decision of the Board thereon shall be final and conclusive and shall not be open to question or review in any court and no proceedings by or before the Board shall be restrained by injunction, prohibition or other process or proceeding in any court or be removable by certiorari or otherwise (60, 1).

In particular, the board, has general control of the "accident fund," with a wide range of discretion. The presumption is that the half-hundred classes of industry are to be considered separately in the determination of premium rates (84, 1); but there may be different rates for sub-classes (74, 2), for "industries" (74, 4), and for individual employers (85, 3). The merit rating according to hazards is contemplated, undoubtedly; but it is permitted (74, 4; 85, 3), not commanded. In making rates, as in most of its work, the board has freedom of action. Premiums may be rated on pay-rolls (85, 1) or not (84, 2).

The declared basis, or principle, of the accident fund is sound. Premiums are to provide for current claims, expenses, and reserves (85, 1), so as "not unduly or unfairly to burden the employers in any class in future years with payments which are to be made in those years in respect of accidents which have previously happened" (71). Such terms, which are repeated with only the slightest changes (84, 1; 91), and the references to the maintenance (70; 72; 91) and investment (92) of reserves imply a purpose to have the fund on a satisfactory financial or actuarial basis. It is unfortunate that there is no clear provision for meeting catastrophes, as there is in the funds of California and New York; and there may be danger in the permission, expressly given (70), to make temporary use of the reserves for current needs. The authorization of special (70; 84, 3) and supplementary (91) assessments for making up shortages may prove a temptation to unduly low rates in the regular premiums. Possibly. too, a venturesome board might find in section 72 a hint that it need not maintain such reserves as would satisfy the most careful of actuaries. But much must depend upon the ability and character

of the board and the ability of its expert subordinates; and certainly none can doubt that Ontario means to have a board of ability and character. As far as the terms of a statute may go for the ordering and control of the fund, Ontario has done at least as well as any American state and better than most, with their crude, mechanical

or vicious regulations.

Of the practical solvency of the fund, apart from the fairness with which it may place its charges, there can be no doubt whatever. At the outset a "provisional assessment" is made in advance upon all the employers in schedule 1 (84); and its amount is maintained year after year as a working capital or fund, unhappily designated as "special reserve" (84, 3). Out of this, year by year, current payments are to be advanced; and after the close of each year the claims actually paid, with due additions for reserves and the expenses of the year past, will determine the amount of the regular assessments upon employers (85, 1) for the restoration of the "special reserve" and the building up of a true actuary's reserve. Any lack of funds in hand for the payment of claims as they fall due may be made good by the temporary use of the reserves or by advances from the general funds of the province (70). Such deficiencies or advances and all other deficiencies are to be made good by special or supplementary assessments upon all employers in schedule 1 (70; 87; 88; 91), since "for the purpose of paying compensation the accident fund shall be deemed one and indivisible" (74, 3). Any ascertained deficiency in the true reserve of the fund will be supplied similarly by a supplementary assessment (91). Assessments are without limit of amount and they may be enforced and collected either as if judgments of the district or county courts (94) or as if taxes (95). A fund resting ultimately upon the state's sovereign control of all the wealth of industry cannot but be solvent. Employers in schedule 2 are assessed only for their just proportion of the expenses of administering part I (103).

The board has no power directly to enforce safety rules or appliances. It has, however, power to ascertain whether the safety requirements of the law are observed (81); and its large power to adjust premium rates to hazards, even to exclude employers from part I of the act, will mean a real power over the employers within schedule 1. Their own direct action is further stimulated by provision for associations for accident prevention within the different classes; and the safety rules of these associations may be made enforceable by the approval of the board and the lieutenant governor in council

(101). Apparently, employers in schedule 2 find in the present act no special or new inducement to promote the safety of their plants, except the obligation individually to pay the compensations.

This is not a place for a criticism of the Ontario statute. Its larger characteristics have been indicated; and readers will judge it according to their individual minds. There are, however, not a few interesting problems which are raised by this new law. What, for example, is the position of the special classes of employees who are expressly excluded from the benefits of part I of the act, although the industries in which they serve are included, the outworkers, clerical employees, and others? Apparently, they cannot take advantage of the employers' liability law of part II; for section 105 declares that the employers' liability law, "sections 106 to 108, shall apply only to the industries to which part I does not apply and to the workmen employed in such industries."

In the issue of the act coming from the provincial printer there is one error which might affect the application of part I to municipal utilities. Class 1 of schedule 2 includes municipal trade or business "as defined by subsection 3 of section 2." It should be subsection 2: there are only two subsections in section 2.

By executive proclamation the act became effective January 1, 1915. The members of the board are Messrs. S. Price, K. C.; A. W. Wright; and G. A. Kingstone.

WILLARD C. FISHER.

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Among insurance pamphlets are to be noted:

Can Insurance Experience be Applied to Lengthen Life, by Arthur Hunter; an address delivered before the Association of Life Insurance Presidents, December 10, 1914 (pp. 10).

On the same occasion was delivered an address by A. Barton Hepburn on The Relation of Life Insurance to the Credit Fabric of Business (pp. 9).

The True Purpose of the Loss Settlement, an address delivered before the Insurance Society of New York, November 10, 1914, by Allen E. Clough (pp. 12).

Some Observations on Supervision, by Frank Hasbrouck, superintendent of insurance of the state of New York, an address delivered December 11, 1914 (pp. 11).

Life Insurance Companies Should Be Compelled to Invest in the

Securities of Those States in Which the Funds Originate, by Fitz H. McMaster, insurance commissioner of South Carolina (pp. 13).

A Method of Determining Pure Premiums for Workmen's Compensation Insurance, by Harwood E. Ryan, a paper read before the Actuarial Society of America, October, 1914 (Albany, Ins. Dept., pp. 10).

Statistics

The Thirteenth Census Report on Occupations. One of the most important improvements in census work expected from the permanent bureau was in the difficult field of occupation statistics. It is therefore peculiarly unfortunate that the report on occupation statistics (Thirteenth Census of the United States. 1910. Vol. IV. Population. Occupation Statistics, Washington, 1914, pp. 615) has suffered heavily from the lack of funds which handicapped the completion of the work as a whole. In order to expedite its publication and reduce the cost, the last machine count of the cards and the resulting tables have been omitted. It is to be hoped that special reports to cover the excluded subjects may soon appear.

Changes in occupation procedure began in the preparation of the schedules and instructions to enumerators, with an effort to secure more definite and accurate returns, five questions on the subject of occupations being asked in place of the previous one. The only notable improvement in the data of the report as published, however, is the division of the usual question as to the person's occupation into two, one relating to the kind of work and the other to the nature of the industry.

The new classification of occupations, the work of Mr. Alba M. Edwards, expert special agent of the bureau, and author of the text, marks a departure from previous American practice. The new system is a compromise between the older American classifications and the so-called "international" classification prepared by Dr. Bertillon for the International Statistical Institute and, after revision, adopted by that body at its Chicago meeting in 1893. The principle underlying the compromise was the aim of securing, as far as possible, the advantages of the international system without unduly sacrificing comparability with the results of previous censuses. Some sacrifice was

² Alba M. Edwards. Unpublished papers on the classification of occupations. (The main ideas of the papers are contained in an article on "The Classification of Occupations" in the Quarterly Publications of the American Statistical Association, vol. XII, no. 94.

inevitable, of course, and it is not alleviated as much as might have been desired through comparative tables. The number of primary divisions in the classification is increased over that of 1900 from five to eight (as against 13 in Dr. Bertillon's arrangement). Mines and quarries are separated from manufacturing and mechanical industries; the Trade and Transportation division is divided and a new division of Public Service is added. These changes, with the revised wording of the other titles, are undoubted improvements.

As a solution of the vexed question of arranging a classification to subserve the various purposes of such tables and to meet the conflicting demands made upon them, Mr. Edwards has undertaken to present the occupations of the country in detail. As he says,² if the occupations are reported separately, they may be grouped in any way desired. Accordingly, the general classification for the United States as a whole (General Tables, table VI) gives the number of persons engaged in each separate occupation in each of the 117 industries and three service groups of the country, "in so far as such occupation was definitely returned by the enumerators and was of sufficient importance to justify its separate presentation" (p. 24).

As to what was the test of sufficient importance we are not told, but it must have been a lenient one. Approximately 5000 occupation groups are tabulated, a number far in excess of that recognized in other census classifications of occupations.3 Of this number over half include a total of under 500 persons for the whole United States; something like one fifth number under 100, while a considerable fraction are under 10; and we are actually told that there are in this country three masons employed by printing and publishing establishments! As figures of this sort are subject at best to a wide margin of error, such numbers can hardly be dependable; and, even supposing them approximately correct, it is to be questioned whether, in view of the wide variations in conditions over so extended an area, they are not too small to be statistically significant. The results of further distributing them among the dozen sex, age, and social groups frequently border on the fantastic. Under the theory, to be sure, such groups would be expected to be used only for recombining,

² Unpublished paper, "Proposed Changes in the System of Occupation Classification in the United States," p. 3.

⁸The Massachusetts census of 1885 is to be excepted. In its occupation report are listed over 8000 occupations, but such detailed classification was entirely abandoned in the next census when occupations were grouped under 123 titles.

but one may still doubt the value of publishing figures for groups below a reasonable minimum size.

In the other general tables, showing occupations by geographical subdivisions, such detail was impossible, and they are presented under 428 groups and subdivisions, further reduced in two of the tables to 215 by omitting the subdivisions. A point which may be criticised here is the fact that there is no such arrangement of the detailed and condensed tables as to enable the student to tell which occupations in the longer list were combined. This would have been very serviceable, not merely for the purpose of accurately describing the larger groups, but also to make possible their subdivision by means of proportions derived from the detailed table.

A more serious defect is that in order to form combinations along occupational lines, "each occupation of the condensed list is classified in that part of the industrial field in which it is most commonly pursued." The result is frequently obscure, not to say misleading. Here again there is no key to what has been done, which groups have been moved and combined, and it is difficult and often impossible to ascertain whether the persons constituting a group placed under a certain industry were all, in fact, employed there or whether those following a similar occupation in other industries have been included.

Moreover, no consistent plan has apparently been followed in selecting the combinations to be made. The greatest divergence is to be found in the treatment accorded to the "repeaters" (occupations pursued in more than one industry) listed in the Index of Occupations prepared as a basis for the classification. Most (but not all) of the "trades" of the group are placed under Manufacturing and Mechanical Industries; some (draftsmen and designers) are included among the professions; and others (decorators, wheelwrights, mechanical engineers) are not to be found at all. The "proprietary, official, and supervisory" persons might be thought fairly to constitute an occupational class, but they have been rather minutely distributed among the different branches of industry, as have also the unskilled laborers; clerical occupations on the other hand are erected into a separate class, treated throughout as coördinate with the eight primary divisions.

A procedure which suggests itself as more serviceable would be to classify under each industry only occupations peculiar to it, or else its true share of other occupations, and to make a separate grouping of occupations common to more than one industry, as was done with

the clerical pursuits. A large field of usefulness would also be opened up for various special groupings cutting cross industrial lines, based on different significant characteristics connected with the work.

If a suggestion may be added as to what is perhaps the most urgently needed general change in American occupation census procedure, it should be the drawing of a more definite distinction between the occupied and unoccupied. To do this successfully would involve recognizing more than one degree of the quality in question—at least the three gradations of occupied, partially occupied, and unoccupied, as opposed to the present two. This is especially true in the case of women and children, and perhaps the aged. Censuses of occupations in European countries have felt this need, and are distinguishing to an increasing extent between principal and subsidiary occupations.

In this country, the instructions to census enumerators contain no general rule or definition for determining what constitutes a gainful occupation. This involves giving unlimited discretion to the vast number of these officials, temporary appointees of little training and often limited competence, and as a result we find such anomalies as the following: A slight change in the wording of the instructions in 1910 has caused the number of females reported as engaged in agricultural pursuits to increase 85 per cent above the number for 1900, while the number reported as farm laborers increased 129.5 per cent. The number of children from ten to fifteen years of age reported as occupied decreased 18.8 per cent, but the number reported as occupied in agriculture increased 34.8 per cent. Again, we find the percentage of children from ten to thirteen years of age, reported as gainfully employed in 1910, varying from 1.2 per cent in Masachusetts and 6.6 per cent in Iowa to 56.1 per cent in Mississippi for boys and from 0.3 per cent and 0.7 per cent to 39.4 per cent for girls in the same states.

Such figures are not merely worthless as an indication of the number of women and children employed, but they must vitiate to a considerable degree the proportions shown for the whole population. In agriculture we find, for example, that the "farm laborers" include over 250,000 girls from ten to thirteen years of age, while 23.8 per cent of the entire class is made up of children from ten to fifteen and 42.4 per cent of such children and women together. Clearly we here have the word "employed" used in fundamentally different senses. The census should no doubt take account of the productive labor of such partially occupied persons, but they certainly should

not be thrown in indiscriminately with those devoting the time and energies of adult life to the occupation.

It is to be emphasized also that the extent of engagement of women and children in industry and the nature of their work is itself one of the most vital questions the occupation statistics should be expected to answer. The data on this head are only misleading when no distinction is drawn between such persons toiling long hours for subsistence and those earning "pin-money" by spare-time work in addition to housekeeping or school attendance.

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PERIODICALS

The Review is indebted to Robert F. Foerster for abstracts of articles in Italian periodicals, and to R. S. Saby for abstracts of articles in Danish and Swedish periodicals.

Theory

(Abstracts by W. M. Adriance)

Adriance, W. M. Specific productivity. Quart. Journ. Econ., Nov., 1914. Pp. 28.

An attempt to refute the thesis that the specific productivity of the factors in production determines distributive shares.

Chapin, F. S. Scientific method in sociology. Am. Journ. Soc., Nov., 1914.
Pp. 21.

The statistical method made use of in sociological inquiry.

FANNO, M. Contributo alla teoria dell' offerta a costi congiunti. Giorn. d. Econ., Oct. (Supplement), 1914. Pp. 143.

An elaborate survey of the problems of joint cost. Includes a discussion of recent literature on the subject.

Guyor, N. S. Le monument Turgot. Journ. des Econ., Aug. 15, 1914. Pp. 17.

The erection of a monument to Turgot furnished the occasion for a number of speeches in which his economic contributions are summarized.

Kobatsch, R. Der Streit um die Weltwirtschaftslehre. Jahrb. f. Nat. Oek., III, 48, 4, 1914. Pp. 10.

Continues the controversy over the status of "Weltwirtschaftslehre" as a separate discipline.

MITCHELL, W. C. Human behavior and economics; a survey of recent literature. Quart. Journ. Econ., Nov., 1914. Pp. 47.

A review of seven recent books dealing with the foundations of human conduct, and with the economic and political resultants of human conduct as it is disclosed to us by scientific inquiry.

Murray, R. A. Alcune osservazioni a proposito della teoria dei costi comparati. Giorn. d. Econ., Oct., 1914. Pp. 6.

Strachan, W. The English law of capital and income. Univ. of Penn. Law Rev., Oct., 1914.

Written chiefly for American lawyers.

WICKSELL, K. Lexis och Böhm-Bawerk. Ek. Tids., Nos. 10, 11, 1914. Pp. 6, 12.

An appreciation of these highly distinguished economists who died last summer.

Economic History, Foreign (Abstracts by Clive Day)

ABAKAWA, K. The origin of feudal land tenure in Japan. Am. Hist. Rev., Oct., 1914. Pp. 23. A scholarly study of importance to the student of the comparative history of institutions.

Bevenion, W. H. A seventeenth contury labour exchange: a correction. Econ. Journ., Dec., 1914. Pp. 2.

Robinson's pamphlet (cf. notice in December issue of this Review, p. 989) was a plagiarism from Théophraste Renaudot, who had a labor exchange in Paris, 1630-1644.

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(Abstracts by Henry J. Harris)

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Experience under the Ohio law of 1913 in Cincinnati; about 90 per cent of the cases aided show improvement.

EKERN, H. I.. The Wisconsin commissioner's bills and reasons for his bills for regulating fire insurance rate-making. Am. Underwriter, Nov., 1914.
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Commissioner Ekern of Wisconsin has drafted six bills to regulate rate making by fire companies and bureaus; (1) examination of such bureaus; (2) prohibiting discrimination; (3) making membership in rating bureaus compulsory; (4) requiring written surveys of such risks as are specifically rated; (5) prohibiting agreements between companies (exceptions allowed); (6) authorizing review of bureau ratings by state commissioner.

Giesberts, J. Aufgaben der Invalidenversicherungsanstalten im Kriege. Soz. Praxis, Oct. 8, 1914. Pp. 2.

The carriers of the invalidity insurance of Germany will lend 5 per cent of their reserve to local governments for preventive measures and relief work. Unemployment relief, aid to building and loan associations, support of sanitaria and convalescent homes, etc., will be included in the purposes for which loans will be granted.

Jespersen, V. Pensionshyppigheden hos köbenhavnske Kommunelärere og -lärerinder. Nat. ök. Tids., Aug.-Sept., 1914. Pp. 6.

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NATHAN, E. B. Section 72 of the national insurance act. Some other features of friendly societies and national insurance, including a note on the proposed Belgian national insurance act. Journ. Inst. Actuaries, Oct., 1914. Pp. 12.

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A study of the law of April 5, 1910, making state provision for retired workers.

SMITH, V. R. Group insurance. Am. Underwriter, Sept., 1914. Pp. 11.

Insurance of employees in groups of 100 or more, without individual medical examination, is a forward movement. Charge of discrimination is unfounded.

WARMING, J. Principerne for Afskrivning. Nat. ök. Tids., Aug.-Sept., 1914.
Pp. 57.

The principles of writing insurance with particular application to the insurance of buildings.

Group insurance on electric railways. Elec. Ry. Journ., Oct. 31, 1914. Pp. 3.

This type of life insurance is claimed to be well adapted to the needs of public service corporations.

Insurance for the unemployed in Germany. Cons. & Trade Repts., Dec. 31, 1914. Pp. 2.

Unemployment insurance in Germany is gradually extending, largely through municipal action.

Investment of the funds of the insurance societies. Mo. Bull. Econ. & Soc. Intell., Sept., 1914. Pp. 16.

Shows the types of investments used in different countries.

Investments of insurance societies in France. Mo. Bull. Econ. & Soc. Intell., Sept., 1914.

In France, life companies are encouraged to invest their reserves in national and local government securities. In Great Britain, full liberty of investment is permitted by law and this policy has influenced the laws of Australia and Canada. In the United States, the principal types of investment are farm mortgages and bonds of public utility corporations.

Opinions in cases under the workmen's compensation act, 1912-1914. Bull. Ohio Indus. Com., Dec., 1914. Pp. 199.

Special compilation of decisions under the Ohio workmen's compensation law.

Pauperism and Charities

(Abstracts by Frank D. Watson)

D'AETH, F. G. The administration of public relief funds. Pol. Quart. (London), Dec., 1914.

A plea for more rational handling of the relief problems incident to industrial depressions such as that now being experienced in England. The author suggests raising the necessary fund by a "house-to-house collection, publicly announced in the local press... and adequately organized from the town hall" and "a permanent organization in each town, civic in character." In this permanent organization he assigns no unimportant role to services of the professional social worker, and to those of the volunteer friendly visitor.

Ostwald, H. Kultivierung des deutschen Oedlandes durch Arbeitslose während des Krieges. Soz. Praxis, Aug. 27, 1914.

Observations on the question of the cultivation of German waste lands by the unemployed during the war.

Rowland, W. J. The problem of public and private assistance among the tuberculous poor. Pol. Quart., Sept., 1914.

To deal effectively with the problem a joint committee is needed which is so constituted as to be in a position to visualize the whole problem and to indicate where and how coördination of work now being done is required.

SHAIRP, L. V. War relief measures in the provinces. Charity Organ. Rev., Oct., 1914.

A review of steps being taken in the provinces to meet the present emergency relief situation. The evils of purely municipal administration of relief have been to a great extent avoided.

NOTES

At the annual meeting of the American Sociological Society, held at Princeton the latter part of December, the following officers for the year 1915 were elected: President, Edward A. Ross of the University of Wisconsin; first vice-president, George E. Vincent of the University of Minnesota; second vice-president, George E. Howard of the University of Nebraska; secretary-treasurer, Scott E. W. Bedford of the University of Chicago; executive committee, former president Franklin H. Giddings of Columbia University; former president Albion W. Small of the University of Chicago; J. E. Hagerty of Ohio State University; James Q. Dealey of Brown University; John M. Gillette of the University of North Dakota; Edward C. Hayes of the University of Illinois; and Howard B. Woolston of the College of the City of New York.

At the annual meeting of the American Statistical Association, Professor E. Dana Durand was elected president; M. O. Lorenz takes the place of Emil P. Secker as assistant secretary in Washington.

At the first meeting of the Casualty Actuarial and Statistical Society of America, held in New York City, December 7, 1914, the following papers were presented: "Scientific methods of computing compensation rates," by I. M. Rubinow; "How extensive a payroll exposure is necessary to give a dependable pure premium," by A. H. Mowbray; "Valuation of the death benefits provided by the New York compensation law," by D. W. Greene; and "Reserving under workmen's compensation insurance by a method of pure premium losses," by C. E. Scattergood. It is the intention of the society to publish proceedings, the first number of which will shortly appear.

The 1915 convention of the American Bankers Association will be held at Seattle, Washington, probably during the early part of September.

At a conference on taxation, held December 8-10, at Norman, Ok., under the auspices of the University of Oklahoma, Dr. T. S. Adams spoke on Wisconsin experience in assessment and Professor L. H. Haney read a paper on land taxation. The conference was largely attended by the members of the Oklahoma legislature.

It is announced that the proceedings of the Eleventh Annual Conference on Child Labor will appear in the May, 1915, number of the Child Labor Bulletin.

The incorporated cooperative associations of New York state held a conference at Utica, January 13-15, under the direction of Marc W. Cole, state superintendent of cooperation. The program included reports from the various farmers' cooperative societies, discussions of the problems of cooperative organizations, and addresses by men prominent in the movement in New York.

The farmers' coöperative exchanges of Massachusetts were recently organized into a state federation, under the leadership of Professor R. H. Ferguson, extension professor of agricultural economics at the Massachusetts Agricultural College, at a meeting of delegates held in Springfield.

The American Bankers Association has established a Department of Public Relations and has selected as manager Mr. Arthur D. Welton of Chicago. Mr. Welton will assume the editorial management of the Journal-Bulletin. While this periodical will not go into the field of general banking news which is now covered by the financial journals, it will give information on current topics of banking and currency legislation and the activity of federal reserve banks.

The Dallas Convention of the Institute of Bank Clerks has adopted an amendment providing that the educational work of the institute shall be under the general supervision and subject to the approval of a board of regents consisting of two professional educators, two practical bankers, and the educational director of the institute. In accordance with this provision, the executive council has appointed as regents: Professor O. M. W. Sprague of Harvard University, Professor E. W. Kemmerer of Princeton University, Mr. Harold J. Dreher of the Marshall and Ilsley Bank of Milwaukee, and C. W. Allendoerfer of the First National Bank of Kansas City.

Dr. Edward T. Devine, director of the New York School of Philanthropy, has been made temporary director of social investigations in the Department of Public Charities of the City of New York. Under the reorganizing of the investigating staff of the department it is expected that there will be much closer coöperation between public and private charities.

The educational department of the West Side Y. M. C. A. of New York City has established a course of fifteen lectures on exporting and related subjects, given under the direction of Dr. J. F. Crowell.

A School of Commerce has been established by the University of

Tennessee. No new college has been formed, but certain courses in the colleges of law, engineering, and liberal arts have been grouped together and a number of new courses created.

Dartmouth College, through the Amos Tuck School of Administration and Finance, announces for next year a new course on employment as a function of management.

Mr. Donald E. Dunbar, a graduate of Harvard in 1913, has been awarded the first prize of \$1000 in the Hart, Schaffner & Marx competition. The subject of his essay is "The tinplate industry in the United States and Great Britain."

The Young Men's Christian Associations of Massachusetts and Rhode Island offer two prizes of \$50 each for essays on immigration. Undergraduates in colleges are to write on "A community program of education for non-English-speaking men in the principles of American government"; and undergraduates in theological schools are to write on "The protestant minister in an immigrant community." The contest closes May 1, 1915. Further information may be obtained from Mr. Clarence P. Shedd, 167 Tremont St., Boston.

The Russell Sage Foundation Library has arranged to act as a clearing house for valuable duplicates on applied sociology. This library is constantly receiving books, reports, and pamphlets of which it already has copies. If of value, these are classified and will be sent to libraries upon request if ten cents in stamps is enclosed. From time to time the Library Journal will print a list of these titles, the first one appearing in the January number. Any library or individual having sociological material is invited to send it, transportation prepaid, to the Russell Sage Foundation Library, 130 East 22d St., New York. Current reports and government documents should not be sent unless out of print. It is hoped that this plan may be widely used and that it will lead to the handling of other classes of literature in a similar way.

Owing to the appointment of Dr. C. C. Williamson as librarian of the Municipal Reference Library of New York City, the Documents and Economics divisions of the New York Public Library have been consolidated under Miss A. R. Hasse as chief.

The Fabian Society of England has established club rooms at 25 Tothill Street, Westminster, London. Socialist and labor journals and a considerable library will be available. Provision is also made for refreshments and recreation.

The Rockefeller Foundation, in a recent pamphlet, makes the following statement:

"Next in importance to the Belgian relief work has been the establishment of a department for the investigation of industrial relations, to direct which Mr. Mackenzie King, formerly Minister of Labor of Canada, has been appointed.

For several years past, Mr. John D. Rockefeller and his advisers have had under consideration the establishment of an organization for social and economic research. Upon the establishment of the Rockefeller Foundation, one of the first matters discussed was the advisability of the organization of such an institution, and a committee of leading economists and business men was created to consider whether such an organization could wisely be established.

While the general subject of economic research was under consideration, the industrial disturbances in Colorado impressed the president of the Foundation with the great need and public importance of finding an effective means of preventing such conflicts and caused him to urge a far-reaching study of industrial relations as the most important immediate inquiry to which the Foundation could direct its attention.

In view of the passion aroused in Colorado and many divergent interests involved there, it was felt that the Foundation itself should not interfere in that situation, but that it was of the utmost consequence that the root causes of that and similar disturbances should be ascertained, and, if possible, removed, not only in Colorado but elsewhere.

The Rockefeller Foundation is, moreover, a large owner of corporate securities, and in that capacity itself directly concerned in maintaining harmonious relations between the companies in which it is interested and their employees. It was therefore felt that if the Foundation could work out on a basis compatible with sound economics a substantial improvement in the relations between capital and labor, it would not only be discharging its obligation as indirectly a large employer of labor, but would also perform for the general public a greater social service than it could render along usual philanthropic lines. It was also felt that there was hardly anything the Foundation could do which would more effectively conform to its chartered purposes, namely, 'to promote the well-being of mankind.'

Realizing that the success of such an endeavor would depend almost entirely upon the character and attainments of the person conducting the work, the Foundation felt itself peculiarly fortunate in being able to enlist the coöperation of Mr. Mackenzie King, who had had wide experience in the actual solution of labor problems in Canada.

March

Mr. King has from the outset indicated to the Foundation his desire to avoid any form of organization which may cause it even to appear that his work is intended to rival or encroach upon the work of existing organizations, and in particular the work properly assignable to Government departments and agencies.

In spirit and method the work will be akin to that of the Rocke-feller Institute for Medical Research. In so far as Mr. King's inquiries have to do with industrial controversies, his attitude will be that of a physician who investigates the nature and causes of the pathological conditions with which he has to deal, with a view, if possible, to the discovery of effective remedies.

It cannot be too clearly understood that the purpose of this inquiry is not to apportion blame in present or past misunderstandings, nor to justify any particular point of view; the sole purpose is to be constructively helpful. The final and only test of the work will be the degree to which the constructive suggestions growing out of the investigation actually improve the relations between capital and labor.

The directors of the Foundation are Messrs. Charles W. Eliot, president emeritus of Harvard University; Dr. Simon Flexner, scientific director of the Rockefeller Institute; Frederic T. Gates, Jerome D. Greene, A. Barton Hepburn, chairman of the Board of Directors of the Chase National Bank; Charles O. Heydt, Harry Pratt Judson, president of the University of Chicago; Starr J. Murphy, John D. Rockefeller, John D. Rockefeller, Jr., and Wickliffe Rose, directorgeneral of the International Health Commission."

The Bureau of Foreign and Domestic Commerce announces a change in the method of publishing the Daily Consular and Trade Reports. A new title, Commerce Reports, has been adopted. The time for preparing these daily issues has been reduced from four days to ten hours. It is thereby expected that the matter will be much more promptly presented.

The Library of Congress reports the accession of an extract of the report of the Commissioners of Customs on duties on tobacco in Maryland and other financial papers, 1695-1709; papers of Jonathan Hobbs, a merchant in New York, including his miscellaneous account books, 1717-1763; a ledger of accounts, 1758, kept at Greenock, Scot-

land, by Robert Baine, containing information of his trade with Virginia; and a mercantile account book, 1759, Petersburg, Virginia.

An interesting addition to the documentary possessions of the Department of Archives and History of the State of Mississippi consists of the original records of the bank established in Natchez in 1809 by the Mississippi Territorial Assembly under the name of The President and Directors and Company of the Bank of Mississippi. These papers were presented to the department by Mr. A. G. Campbell, president of First Natchez Bank. Particularly valuable is the correspondence of the bank which includes letters from most of the prominent men in the territory from 1809 to 1835. At the time of the last report of the director of the Department of Archives and History, only a partial examination of the papers had been made.

The New York School of Philanthropy is inaugurating a series of inexpensive publications under the general heading Studies in Social Work. They are planned to be of use to social workers and other students of social problems. Many of them probably will be adapted to the needs of college and university classes. The first number in the series is Social Work with Families and Individuals, by Porter R. Lee (pp. 16; 5c.).

The publicity committee of the National Electric Light Association has adopted a resolution indorsing the plan for publication of the decisions and rulings of the public service commissions of the country in available form. The Lawyers' Coöperative Publishing Company, of Rochester, N. Y., will have charge of the editing and publication of the decisions under the title, Public Utilities Reports Annotated.

Doubleday, Page and Company announce the early publication of The Cost of Living, by Fabian Franklin, and Socialism in America, by John Macy.

It is expected that the lectures delivered by Professor Taussig at Brown University during the exercises in celebration of its one hundred and fiftieth anniversary will soon be published: "The instinct of contrivance"; and "Psychology and money making."

A work upon which Professor W. T. Jackman of the University of Vermont has spent many years of research has recently been accepted by Cambridge University; and under the imprint of that university it will shortly appear, with the title, The Development of Transportation in Modern England. It will be available as collateral reading for courses in economic history and transportation.

Thomas Y. Crowell Company announces Problem of Community Life, by Seba Eldridge.

The Texas Applied Economics Club has just published the results of its third year's work in a bulletin of the University of Texas entitled Studies in the Industrial Resources of Texas. Soil, climate, and population are given special attention. During the current year the club is studying the land question in Texas and especially tenancy.

The Fabian Research Department announces the preparation of a book on Trade Unionism in Great Britain, by G. D. H. Cole, H. J. Gillespie, and W. Mellor. Books on trade unionism in Germany, by W. S. Sanders, and in France and Belgium, by C. M. Lloyd will also probably be issued at an early date. The department is also considering the possibility of publishing a labor and socialist annual containing exact statistical and other information on all the important aspects of the labor movement.

The Verein für Sozialpolitik has recently issued: Die Milchversorgung norddeutscher Städte und Industriegebiete, No. 140 (14 M.); Preisbildung für gewerbliche Erzeugnisse, No. 142, Pt. 3 (7.20 M.); Kosten der Lebenshaltung in deutschen Grossstädten. I. Oest- und Norddeutschland. II. West- und Süddeutschland, No. 145, edited by Franz Eulenburg (11 M. and 12 M.); and Die Preisentwicklung der Baumwolle und Baumwollfabrikate, by Dr. K. Apelt and Dr. Ernst Ilgen (4.20 M.).

The first number of Social Hygiene, December, 1914, has appeared (105 West 40th St., New York). Among the leading articles in this first issue is "The interest of life insurance companies in social hygiene," by Lee K. Frankel.

In view of the war it has been decided to suspend publication of the Economic Review (England) during 1915.

Appointments and Resignations

Dr. Stephen Bauer, director of the International Labor Office in Basel, Switzerland, has been appointed one of the Woodward lecturers at Yale University for the current year.

Dr. John I. Falconer has been appointed assistant professor of rural economics at Ohio State University.

Professor George E. Frazer, of the University of Illinois, who is professor of accountancy and controller of the university, has resigned. The resignation takes effect at the end of the present academic year.

Dr. L. H. Haney and Mr. W. E. Leonard, of the University of Texas, testified before the United States Commission on Industrial Relations at its Dallas hearing on February 1, and prepared reports on farm credit and tenancy, respectively.

Mr. R. C. Line has resigned as instructor in economics at Mt. Holyoke College and has accepted a position with the Merchants' Association of New York as assistant manager of the industrial bureau.

Professor David A. McCabe, of Princeton University, is on leave of absence for the second semester in order to carry on work as special agent of the United States Commission on Industrial Relations. He will study industrial conciliation, mediation, and arbitration in the United States.

Professor F. A. McKenzie, of Ohio State University, has been elected president of Fisk University, Nashville, Tenn., and will take up his new duties at the beginning of the next collegiate year.

Dr. Harold G. Moulton, instructor in political economy at the University of Chicago, has been promoted to an assistant professorship.

Mr. Hjalmar O. Watrud has been appointed extension instructor in agricultural economics at the Agricultural College of the University of Wisconsin.

Mr. Russell Weisman, who has been teaching at Kalamazoo College, has gone to Mt. Holyoke College as instructor in economics.

Dr. Leo Wolman, who has been connected with the United States Commission on Industrial Relations as a special investigator of trade union matters, has been appointed acting professor of economics and sociology in Hobart and William Smith colleges

Dr. A. N. Young has been appointed instructor in economics at Princeton University.

At the University of Illinois, the following have been made assistants in the department of economics: J. E. Kirshman, of the University of Montana, E. L. McKenna, and C. K. Knight.

Among the new members of the New York City Board of Education appointed by Mayor Mitchell are: Professor F. H. Giddings, of

Columbia University, Raymond B. Fosdick, former commissioner of accounts, and Mary E. Drier, former president of the Women's Trade Union League.

Miss Katharine Coman, professor emeritus of history and economics at Wellesley College, died January 11, 1915. Miss Coman was born in 1857, graduated at the University of Michigan in 1880, and for more than thirty years has been on the teaching staff of Wellesley College. She was the author of The History of Contract Labor in the Hawaiian Islands, published by the American Economic Association in 1904; The Negro as a Peasant Farmer, published by the American Statistical Association in 1905; Industrial History of the United States (1905); Government Factories. An Attempt to Control Competition in the Fur Trade, published by the American Economic Association in 1911; Economic Beginnings of the Far West. How We Won the Land Beyond the Mississippi (1912). During the year 1913-1914 she also published in the Survey a series of studies on Social Insurance based upon personal investigation in Europe.

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The American Economic Review

Volume V, No. I

SUPPLEMENT

March, 1915

Papers and Proceedings

of the

Twenty-seventh Annual Meeting

of the

American Economic Association

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Inquiries and other communications regarding membership, meetings, and the general affairs of the Association, as well as orders for publications, should be addressed to the Socretary of the American Evenesia Association, Ithaca, N. Y.

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PROGRAM OF TWENTY-SEVENTH ANNUAL MEETING

MONDAY, December 28

S P. M. FIRST SESSION

Presiding, President John Grier Hibben, Princeton University
Presidents' Addresses

ECONOMICS AND THE LAW, John H. Gray, American Economic Association Some Statistical Ideals, John Koren, American Statistical Association Free Communication and the Struggle for Right, Edward A. Ross,

American Sociological Society

TUESDAY, December 29

9 A. M. Meeting of the Executive Committee

9.30 a. m. Business Meeting of the Association, with reports of committees, etc.

10.30 A. M. SECOND SESSION

Presiding, President Gray

SPECULATION ON THE STOCK EXCHANGES AND PUBLIC REGULATION OF THE EXCHANGES

Papers

Samuel C. Untermyer, New York City

Henry C. Emery, Yale University

Discussion under the ten-minute rule

Albert W. Atwood, Princeton, N. J.

Walter E. Lagerquist, Northwestern University School of Commerce

A. R. Marsh, New York City

Joseph H. Underwood, University of Montana

William C. Van Antwerp, Board of Governors, New York Stock Exchange

Discussion under the five-minute rule

William Z. Ripley, Harvard University

2.30 P. M. THIRD SESSION

Presiding, Thomas N. Carver, Harvard University

MARKET DISTRIBUTION

Papers

Royal Meeker, United States Commissioner of Labor Statistics

L. H. D. Weld, University of Minnesota.

Discussion under the ten-minute rule

George N. Lauman, Cornell University

Selden O. Martin, Harvard University

A. E. Swanson, Northwestern University School of Commerce

Clyde L. King, University of Pennsylvania

Discussion under the five-minute rule

J. Russell Smith, Swarthmore, Pa.

Henry C. Emery, Yale University

John L. Coulter, Peabody College

4.30 p. m. Reception for the members of the Association at President Hibben's house, "Prospect"

8.30 P. M. Smoker at Thomson Hall

WEDNESDAY, December 30

- 9.30 A. M. Meeting of the Executive Committee
- 10 A. M. FOURTH SESSION
 - Joint meeting with the American Statistical Association
 - Presiding, John Koren, President of the American Statistical Association
 - THE STATISTICAL WORK OF THE UNITED STATES GOVERNMENT
 - Discussion under the ten-minute rule
 - Walter F. Willcox, Cornell University
 - E. Dana Durand, University of Minnesota
 - Royal Meeker, United States Commissioner of Labor Statistics
 - Wesley C. Mitchell, Columbia University
 - Walter S. Gifford, American Telephone and Telegraph Company
 - Harvey S. Chase, Boston, Massachusetts
 - Roger W. Babson, Wellesley Hills, Massachusetts
 - John Cummings, Washington, D. C.
 - Discussion under the five-minute rule
 - J. A. Hill, Bureau of the Census
 - N. I. Stone, Brooklyn, N. Y.
- 2,30 P. M. FIFTH SESSION
 - Presiding, President Gray
 - 1. THE RELATION OF EDUCATION TO INDUSTRIAL EFFICIENCY
 - Paper, Edward D. Jones, University of Michigan
 - Discussion under the ten-minute rule
 - H. L. Gantt, New York City
 - 2. THE EFFECT OF INHERITANCE AND INCOME TAXES ON THE DISTRIBUTION OF WEALTH
 - Paper, T. S. Adams, Wisconsin Tax Commission
 - Discussion under the ten-minute rule
 - R. R. Bowker, New York City
- 7 P. M. Subscription Dinner at Procter Hall of the Graduate College

THURSDAY, December 31

- 9 A. M. Business meeting. Election of officers, etc.
- 10 A. M. Meeting of the Executive Committee
- 10.30 A. M. SIXTH SESSION
 - Joint meeting with the American Sociological Society
 - Presiding, President Grav
 - THE PUBLIC REGULATION OF WAGES
 - Papers
 - Frank H. Dixon, Dartmouth College
 - Mrs. Glendower Evans, Boston, Massachusetts
 - Discussion under the ten-minute rule
 - F. J. Warne, Washington, D. C.
 - H. B. Woolston, College of the City of New York
 - I. M. Rubinow, New York City
 - Discussion under the five-minute rule
 - Theresa McMahon, University of Washington
 - W. L. Whittlesey, New York City
 - Scott Nearing, University of Pennsylvania
 - N. I. Stone, Brooklyn, N. Y.

ECONOMICS AND THE LAW

ANNUAL ADDRESS OF THE PRESIDENT

JOHN H. GRAY
The University of Minnesota

As Bacon centuries ago taught men that "knowledge is to be found by careful investigation of nature, not by spinning cobwebs," and "turned men from disputations of words to an observation of the world around," so we are learning today for the first time that economics is a science that has to do with the affairs of this world and is not merely a part of abstract philosophy. Half a century ago Mill was called severely to account for asserting that while production rested on physical laws distribution rested on the conventions of society. We are just beginning to find out how wide of the mark the first part of this statement is, however true within wide limits the latter may be.

Until within a decade or two economics was considered the science of private pecuniary gain. Within very recent days the emphasis

has shifted from private gain to human welfare.

The traditional economics took definite shape at the moment when the world was passing from one economic system, method of production, and business organization to another. Its principles were drawn almost entirely from the conditions then rapidly passing away. They were posited on the condition of the independent employer, who was at the same time skilled workman, capitalist or owner of the instruments of production, and actual director of industry. This was before the productive power of the world was capable of producing a large surplus wealth. The key to the industrial situation then was the trained independent employer, working within the guild for his own account under the rules formulated by the guild. The chief object of these rules was to give every man an equal chance and to assure to him the rewards of his industry and skill. Capital, in that age, though important was not a separate category. The philosophy did not provide for a condition of affairs in which the mass of the workmen were unskilled, working for wages, and the instruments of industry were owned by another class of society, for the most part devoid of technical knowledge. The main object of guild rules was always general well-being and not capitalistic profits.

The present system is based fundamentally on competition, private property, and individual freedom of contract. The universality and beneficence of competition are assumed. It is also assumed that when an individual pursues his own financial advantage successfully he creates wealth, and that, under competition, this wealth will be widely if not equally diffused and the community will thereby benefit. This teaching remained virtually unshaken in theory and universal in practice, so far as the organization of society was concerned, to something like a generation ago.

Meantime, the surplus wealth, due to the industrial revolution and the universal application of machinery, had enormously increased and these economic doctrines had become thoroughly crystalized into a body of positive law and institutions. Nowhere else was the system so thoroughly entrenched in law as in the United States under the constitutions, federal and state. Granted the underlying assumptions of this school and it logically followed that any conscious attempt to control the production, distribution, or consumption of wealth was not only an unwise and unjust interference with natural forces, but was sure to work injury in practice by making worse the very evils it was aimed to lessen or abolish.

This deprived society of a conscious aim and left the state like a ship without a rudder. With the enormous increase of surplus under such a system, it became increasingly advantageous to individuals to control this surplus. The economic doctrines, the principles of laissez-faire, together with the rapid development of means of communication and transportation, quickened all movement. Combination followed. Nor should it be forgotten that until very recently the endless extent of free land and unappropriated natural resources concealed the true condition of affairs and the general tendencies of our civilization. At the same time, the conditions of life were so easy for all that any attempt to change the constitution of society or to reform the system fell on deaf ears. The forces making for combination resulted in an unmistakable trend toward monopoly and the passing into the control of a few hands of the natural resources, the instruments of production, and, above all, the sources of credit.

It became harder each year for any man to become an independent undertaker of industry, or even to entertain a rational hope of such achievement. This caused class cleavage and social unrest. The keeping open of the gates of immigration, together with the constant increase of automatic, or semi-automatic, machinery made the profitable employment of a lower and lower grade of workmen in our manufacturing industries possible. The incoming of these hordes of various races, tongues, and religions, prevented that effectual combination of labor which might have done something in the absence of a strong government to check the growing inequality of wealth and opportunity.

The interpretation of our constitution by which a corporate charter became a contract and a corporation was endowed with all the more important economic characteristics and rights of a natural person, destroyed competition as a controlling factor in industrial life. Lax corporation laws supplemented by liberal interpretation of the same by the courts, led the corporations to combine under various forms and to enter into gigantic trusts and

combinations.

When the American Economic Association was formed about a quarter of a century ago, the prevailing system of economics taught that the state or organized society as such had nothing to do with economics, although it must be said to the credit of some of the founders that they protested vigorously against such doctrines. Economics was considered, in the English speaking world, a purely abstract philosophy—an a priori science. function of the state was to preserve law and order, and to prevent physical violence to persons and injury to property. Under the assumption of individual liberty, freedom of contract, free and beneficent competition, whatever wrong existed would tend to right itself. Hence, society, as such, need not concern itself consciously about the conditions of production or distribution. Contrary to the theory, this beautiful system of abstract philosophy never had any very close relation to the actual world of affairs at any time, or in any place. But the increasing inequality of wealth and opportunity drove the the actual world every day farther and farther away from the prevailing theory of economics. Competition never applied as completely in any nation or community as the early economists implied, for the simple reason that to be effective competition must be between units of substantially equal bargaining power. This means not only the equal personal liberty of the contracting parties, on which we have laid so much stress, but it also calls for substantially equal intelligence, knowledge, and economic well-being. In other words, each party must be free to enter into a

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given contract, or to refuse to do so, as the one result or the other promises him more advantage. The fact that one of the parties enters into a contract that he knows will be generally disadvantageous to him because he feels that if he refrains from entering into it he will be worse off than if he accepted it, fulfills neither the idyllic suppositions of the economists nor the legal conception of freedom of contract.

In the first flush of individual liberty, population was small, capital was limited and largely held in individual hands. Under the then existing circumstances the facilities did not exist for combined action or for freedom of contract. Nor was any attempt, in fact, ever made to bring within the area of freedom of contract any considerable portion of the population living at any one time in any community. First, freedom of contract arose in the days when the major portion of mankind was not free in the sense implied by the term freedom of contract. They were living in a condition of semi-freedom, or status, more or less free according to our standards, but nevertheless restricted in many ways. In many communities, even the most advanced, a large part of the population were in actual slavery. They of course were excluded. Women, minors, idiots, and many other classes were shut out from this sacred precinct.

But it was not until the days of capitalistic industry and the enormous surplus resulting therefrom, with the consequent class cleavage and the creation of the great wage-earning, non-propertied classes, that we began to discover that the majority of the personally free adult males, because of economic conditions, were quite as unfree economically as many of those whose personal freedom was limited by law.

Furthermore, it may be questioned whether or not the mere growth of fixed capital, in the absence of all other considerations, does not fix a definite limit to the effectiveness and beneficence of competition. I take it that the Ricardian doctrine of competition rests fundamentally on the belief that when two competitors attempt to supply the same market with a given commodity the price of that commodity will finally be cut to the point at which the most efficient can still sell at a profit, while the less efficient will find that price unremunerative. It further assumes that when that condition is reached the less efficient can, and will, withdraw his capital and labor and apply them to some other industry which promises at least the average reward or profit prevailing in the

community. But if such an inefficient competitor is not in a condition to make this change without total or even great loss, competition has to that degree ceased to be effective. Under such conditions, until the existing fixed capital is worn out, or until demand has increased, by the growth of society, so as to require the use of both plants at profitable prices, attempts at so-called competition are not competition at all in the Ricardian sense, and have none of the virtues ascribed to competition as the natural regulator of industry and as a protector to the consumer. In the face of these facts we invent various doctrines of so-called monopolies and begin to consider these exceptions to our rules.

But the taking of the so-called utilities, including the common carriers, out of the categories of competition and freedom of contract, does not bring the readjustment of the doctrines of private property into consonance with the popular ethical sentiments relating to the rights of property in a rapidly growing and changing civilization. Therefore, just as the decision (Chisholm vs. Georgia, 1793) that a citizen may sue a state was answered immediately by an agitation for amendment prohibiting such suit, and within four years by the adoption of such an amendment, so immediately after the Dartmouth College case the people began to forbid, by constitutional amendment where that seemed practicable, and by general statutes where amendment was difficult, the granting of any corporate charters without the specific reservation on the part of the legislature to alter, amend, or appeal the same. This, of course, did not reach charters previously granted.

In the absence of a constitutional amendment, it remained for the courts to step in and relax the rigors of the Dartmouth College case by strained interpretation. This was done by introducing the doctrine of the police power, which is by implication superimposed upon and made a part of all contracts. The New York courts entered first upon this practice, but it was taken up within a decade by the federal Supreme Court. This was a great extension and an entirely new application of the police power.¹ The full significance however of such application did not appear until more than a generation later.

This doctrine cut deep into the theory of the Dartmouth College case; but, what is much more significant, it placed once for all, until

¹ Cf. The Police Power, Public Policy and Constitutional Rights, by Ernest Freund (1904), Preface, p. v. "The law of the police power is practically a growth of the last thirty or forty years and much of it remains unsettled."

the Supreme Court reverses itself, or until the constitution is amended on this point, the power to determine public policy, and consequently the content and extent of contract and private property, in the hands of the court instead of the legislature, or more popular branch of the government. It is interesting to speculate as to what might have happened in a few decades if the doctrine of contract as laid down in the Dartmouth College case could have been maintained, and the courts had not dragged in the police power as a serious modification and mollification of that doctrine.

But even such a change did not keep the doctrine up to the changing popular ideas of the right of contract and of private property. The country found relief once more in a genuine political revolution under Jackson, which issued in the reconstruction of the court under Chief Justice Taney. When the first test case came before the reorganized court (Charles River Bridge case, 1837), it was seen at once by the court that the application of the Dartmouth College case would neither satisfy public opinion nor permit the proper development of New England, save on the sole condition that the people of Massachusetts would be willing to tax themselves to compensate the owners of the Charles River bridge for a property which had actually been destroyed when the legislature chartered the defendant company to build a parallel bridge, which, under the terms of the charter, had already become free before this decision was rendered.

But the people of Massachusetts believed that the first bridge company had received an adequate compensation for the use of its property and for all the effort and risk ever incurred, and was, therefore, not justly entitled to compensation. In the popular judgment the company had been unduly greedy, and for private gain had checked and prevented the necessary and desirable development of the community. Under these circumstances there was nothing for the court to do but to sustain the popular opinion of Massachusetts, and thereby confiscate the property of the Charles River Bridge Company, by an interpretation that can scarcely be squared logically with the Dartmouth College case, or with the earlier decisions in regard to ferries and toll bridges.

Much more striking illustrations appear in our history of the fact that you cannot by any written constitution, or fiction of holding popular opinion in check, in fact, maintain a form or content of private property indefinitely in opposition to a well formed and deliberate, you moral Bu

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deliberate public opinion; or, as a distinguished lawyer has stated it, you cannot compel a sovereign state or a whole people to be moral against its will.

But we are reminded that the wisdom of our fathers decreed by constitutional enactment that when, by changing popular sentiment, the public demands that what is now property legally acquired ought no longer to be property under the changed ethical standards, the state should in a constitutional, orderly, and legal manner, expropriate that property, and pay full value to its present owners. But the object of private property and the sacredness of contract is said to be to give to individuals the ability to count on the future to a degree that will justify them in carrying on production and making an effort to acquire property, and if such an assurance cannot be given under some form of constitutional provision production will cease and civilization will disappear. Granted that morality requires such a doctrine, and that confiscation is therefore unethical; yet, where public sentiment no longer permits that to be property which is recognized as property under the present constitution and laws, the doctrine is vain so long as you cannot compel the whole people to act against its will. Perhaps the remedy for this evil is not an attempt at compulsion by law, but genuine moral education.

If then, we admit for the sake of argument that the content of property will change, and ought to change from time to time, as the needs of society change, and that no person and no class of persons ought to be allowed to hold anything as property when such holding has come to be harmful to the common weal, let us see how the matter of compensation in such cases has been dealt with in the past. This may enable us in some measure at least to forecast the future, and possibly to avoid serious difficulties.

If we cannot compel a nation to act against its will, whether that will be good or bad, can we force it to grant compensation in cases where the right to property in the particular thing is no longer permitted by public opinion? Is is not probable that the degree to which compensation can actually be enforced in any case will depend on the extent of the gap at any time which separates actual conditions from the public judgment of what the present public welfare demands?²

³ "The substance of the law at any given time pretty nearly corresponds so far as it goes with what is then understood to be convenient: but its form and machinery and the degree to which it is able to work out desired results depend very much upon its past."—O. W. Holmes, Jr., The Common Law, p. 1.

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If constitutional arrangements are such as to enable a frequent and easy adjustment at any time, it is probable that the mass of its rights, and consequently the value involved, will in any one instance be so small that a community will be willing for the sake of the added security and the encouragement to labor and investment to expropriate those rights and pay full compensation. But where property is concentrated in a few hands, or where property has been protected by constitutional provisions to such a degree as to make a change of law difficult, if not impossible, and where that property has been enabled, by what is popularly considered unjust if not illegal means, to prevent the necessary constitutional and legal changes for a long enough time to allow the mass of property condemned by the moral sentiment to become enormous, is it likely that the public will consent to tax itself to pay compensation on the necessary scale?

Nor can one psychological consideration be safely overlooked, namely, that the longer such a condition prevails the more the owners of such property become convinced not only that they are right, and legally and morally entitled to such property, but, still more important, they come to believe that they can in fact maintain their possession by the old means indefinitely. Therefore the proposition for expropriation with compensation falls on deaf ears, and is regarded as an invasion of their most sacred rights by those who consider themselves strong enough to maintain such rights. Under such circumstances abolition with full compensation is fought almost if not quite as bitterly as direct confiscation.

Does anyone believe that the owners of nomination boroughs in England in 1832 would have been willing to give up their property rights in such boroughs, involving their whole political existence, for a money consideration? And yet Lord Eldon said they were as much property rights, "as your lordships' peerages and titles." Or, would the American slave holders, after 1850, have listened to a proposition to free their slaves for any amount of money? Or, does anyone believe that the liquor interests in America today would consent for a money compensation to have all their property expropriated, and their owners thus deprived of their present control over political life, vice, and crime? Or, has Mr. Rockefeller's utterances led us to believe that he and the other coal owners of Colorado would give up their rights "to protect their employees in their rights of individual bargaining against the labor unions" for any monetary award no matter how large? Are not

these rights too closely bound up in the minds of their owners with the political control that affects all vested rights?

In the light of history, it will, perhaps, be admitted by all that no large body of property, whether it be the public office or slaves of bygone days, or the saloons of today, can exist indefinitely against a growing sentiment that such property is injurious to the welfare of society as a whole. It is probable that no constitutional or legal forms can save such property. Furthermore, if such property is maintained for generations by what the public considers immoral means, and until the burden of compensation would stagger the public, it is doubtful whether the public will even offer compensation. This is more likely to be the case where the property is of such a nature (as in the case of slavery) that public sentiment will not allow the compensating body to recoup the price paid by the further use of the thing as property.

If these premises be correct, does the question not come down simply to this, whether when the issue is forced the owners will consent to a gradual and peaceful modification of property rights without compensation? If not, the alternative would seem to be the final appeal to force. This brings us to the primitive doctrine that one is entitled to such property only as he is physically able to defend and hold. But such a condition carries us out of the realm of law into that of mere might and reduces us to a state of nature. No one who understood the situation would want to maintain a constitutional form that reduces us to this condition. This means the abandonment of law and a shifting of the economic equilibrium by force as in the Peasants' Rebellion of 1381. In the case of the abolition of the monasteries under Henry the Eighth, as also of the political reforms in England, 1832, the property owners were better advised and consented, very unwillingly it is true, to a shifting of the economic power to other classes by more or less peaceful means. This of course involved a large modification of property rights as well as of political rights, and, in fact, a large confiscation of private property. The reforms offer a close parallel to the prohibition movement of today with its direct confiscations.

The control of government has always given content and meaning to property rights for determining the distribution of wealth among the different classes of society. In America today those in control of our concentrated wealth find themselves apparently entrenched behind an almost unamendable constitution, based upon

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the eighteenth century's interpretation of natural rights, freedom of contract, individual liberty and competition. They seem to think that having worked this constitution into a form where the court is the actual determiner of public policy, and the consequent definer of the rights of property, this condition can be maintained indefinitely.

The attempt to justify the exercise of this power by the courts rather than by the legislatures, is based on the theory that the courts are the safest organ of society, because they are out of politics. The exact contrary is the fact, as can be easily determined by a reference to our own history, as well as to that of Great Britain. The people will always accomplish their ends in the long run, through political agitation and governmental action.

The courts are less well informed in regard to public opinion and sound public policy than the legislatures. The whole effect of turning such a power over to the courts is not to maintain the status quo, or to prevent changes in property rights, but simply to hold those changes in check and to delay them until peaceful settlement becomes much more difficult, if not impossible. Chisholm vs. Georgia led quickly to a constitutional amendment. The introduction of the police power by the courts of New York made the New York judiciary elective in 1846. The Dred Scott decision was wiped out by blood and treasure. The declaring of the income tax unconstitutional twenty years ago resulted in constitutional amendment. The decisions on hours of labor, sanitation, and the like, such as Lochner vs. New York, have led to a universal demand that the people shall have direct political power over the courts. This takes the form of an agitation for the recall of judges, or for the recall of judicial decisions on constitutional questions. The decisons in the railroad rate cases by which so many statutes have been declared unconstitutional have intensified the popular movements for direct popular control of the courts. The recent trust decisions and the "rule of reason" evoke a demand for the limitation of the power of the courts by statute or by constitutional amendment.

It remains to be seen whether or not the courts will formally reverse themselves,—whether as a result of the agitation they will become very much more sensitive to popular opinion and come to understand it better, and reverse themselves in fact but not in form, or whether we shall have by constitutional amendment an elective federal judiciary for limited term, perhaps accompanied

by the objectionable recall of judges or of constitutional decisions, or both. The doctrine that in a democracy the courts can maintain property interests unchanged for any considerable time, and more particularly the property interests of large concentrated wealth, against a well settled and determined public opinion, without grave dangers meantime, seems highly doubtful.

Be that as it may, it will always remain true that the right to determine public policy is a political right—in fact the most important and fundamental political right—over which the public is unwilling to surrender control.

The question then is, whether or not we are to keep our courts in politics, and make them a football of partisan activity, or whether we are to recognize once for all that the determining of public policy is a political function, and that the legislature is a more trustworthy political organ than the courts for such a function.

There is no higher or more important public function than the impartial administration of justice between man and man, and the enforcement of the law. That the courts ought to be removed from political influences all right-minded men admit. That this can be easily accomplished the English experience proves. It is a very significant fact that in the recent reconstitution of the English House of Lords by which it was effectually shorn of its political powers, no suggestion even was made to deprive that House of its judicial powers, for the simple reason that none but the judges took part in the legal decisions, and the judges confine themselves to declaring and enforcing the law and do not try to make the law. But the judges can never be removed from political attack and party influence in this or any other country so long as the chief political function—the determining of public policy—is performed by the courts.

The present system does not, in fact, adjust the public policy satisfactorily to the actual needs of the day. It tends, rather, to preserve the form adapted to a strictly pioneer organization of society based on economic equality and free land, while we are actually living in a marvelously complex civilization, with great inequality and with our natural resources already appropriated. Should the present decline in real wages continue for many years, the tension is likely to become very great, for inequality, with the consequent lack of bargaining ability, tends to increase at an ever-accelerating rate.

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One phase of this situation found no consideration in the days of laissez-faire, and has in fact but very recently attracted attention. By this I mean that when inequality of bargaining power has reached that point where competition is highly unequal we have exploitation of the weak by the strong, without any violation of law. Again, under our theories of competition we actually depress the weaker members of society to a point at which we kill the goose that lays the golden egg by preventing these people from becoming and remaining efficient workers, and still more by preventing them from bringing up their children with sufficient general skill and energy to enable the economic production of the nation to be kept up. Nor is this an evil that either cures, or even tends to cure, itself in the absence of a strong, conscious social action on the part of the state. Hence, the widespread agitation for a legal minimum wage as a basis of maintaining the American standard of living. How strange it would seem to the economists of even half a century ago, with the theories then held of property rights and competition, to come upon such a book as Hollander's The Abolition of Poverty. For the economists of half a century ago believed that "the poor we have always with us" and that poverty is as necessary as profits as a spur to economic production. Under that philosophy hunger and the fear of starvation gave the same motivation to economic effort on the part of the poor as profits gave to the capitalist.

The earlier economists would doubtless be equally shocked by such a book as Ely's Property and Contract, which maintains that property is a social creation, and a social concept, and that private property should be neither acquired nor used in a manner injurious to the public welfare. The earlier economists would have deserted their ship had they come upon Taussig's statement that private property is now on trial and that its sole justification is that it conduces to the economic and social welfare of the people, and that the day is already come when private property with its existing rights and limitations can no longer be assumed, but must prove its right to further existence. This is an entire shifting of the burden of proof from the not remote days when private property with its

present connotation was assumed without any question.

Perhaps the early economists would fail entirely to understand such a book as Hobson's Wealth and Welfare: a Human Valuation, or Veblen's The Instinct of Workmanship,—the first attempting to prove the necessity of an entire shifting of the emphasis

from private gain to public welfare, that is, social well-being, and the latter undertaking to prove that present methods of production are at cross purposes with the controlling and impelling instincts of mankind.

For centuries we have had now and then such books, but never before by professional economists of standing. Yet these are the books that are today not only receiving the most popular attention, but the ones that are actually marking out the path, however imperfectly, which economics must follow if it is to be more than a system of intellectual gymnastics or to have any effect on practical life.

Our free land has heretofore obscured the real tendencies of our economic development. This fixed, on the one hand, a definite minimum below which economic well-being could not be pressed and thus maintained a definite standard of life. On the other hand, it offered opportunities to vast numbers of people to make individual fortunes, and thus to rise to the capitalistic class. This kept alive that speculative spirit and hope so conducive to energy, enterprise, and economic efficiency and production.

The wage system as at present interpreted in our legal doctrines with the gates of opportunity closed by the complete appropriation of natural resources and by the weakened bargaining power of the individual in the uneducated, non-propertied, working classes, presents quite a different spectacle. These changed conditions raise questions of vast import.

We have passed recently, slowly, haltingly, and against great obstacles presented by the courts, to legislation protecting women. children, and finally adult men, as to accidents, workmen's compensation, hours, and conditions of employment. However, the final attitude of the courts on much of this legislation remains to be worked out. But whatever the final view of the courts on workmen's compensation and the minimum wage may be, the economists and the general public, at least, have made up their minds. once and for all, that so far as these subjects are concerned the working classes are no longer subject to helpful or beneficent competition or the freedom of individual contract. We have very grudgingly admitted the usefulness of the collective bargaining brought about by labor unions as a necessary and desirable brake to check by united action the further disturbing of this equilibrium until we can develop a state which is strong enough to represent the social welfare and insure the progress of the nation. Competition will always play an important role in human affairs, but it remains beneficent only when society, acting through a state stronger than the strongest individual or organized group of individuals acting together, makes the rules of the game and sees to it

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To those who have watched the inability of the laboring classes to compete individually without results disastrous to them and through them to the public in general, it must be plain that could our present legal organization be maintained for a few generations our attempts at unrestrained competition under it would mean practical if not legal slavery for the non-propertied classes of today and their descendants. Under such circumstances, if the depressed classes were unable to throw off the yoke by force civilization would die for lack of sustenance. For the experience of mankind shows that no subject population limited to a given territory can, or will, produce enough economic goods to support or sustain itself. If, under such a condition of subjection the population should become stationary, and peace could be maintained, we should then have all the conditions for a civilization based on slavery, and able to continue its existence by means of forced labor alone.3

Our legal system of private property, with its present connotation, has its chief defense in the doctrine that private property is necessary in order to give a sufficient motivation for economic activity and production on a large enough scale to maintain a progressive or even stationary population. But with the exhaustion, or appropriation, of our natural resources to a point where, at present, one cannot avail himself of such resources unless he possesses considerable capital, it appears that, if our present legal organization is to continue, the hope of ever bettering their status will soon fade from the consciousness of the whole working population. When the laboring people obtain sufficient information of the actual conditions, the motivation to industry offered by the chance of owning private property will no longer influence, them. And as these classes already constitute the overwhelming majority of population in every industrial nation, this argument for the existence of private property defeats itself; for if the hope of acquiring private property be the chief motive for economic production, and, if the great majority of our people are shut out from such hope, production must cease unless it is kept up under some

Mill's Principles, Ed. Ashley, p. 989.

other motive,—that is, under compulsion. In fact, the wage system as based on individual bargaining, under our present interpretation of individual private contract and private property, is as inevitably doomed as African slavery was doomed in the United States in 1860. For if private property is to be preserved as a necessary inducement to energy, thrift, and economic production, society must be so organized as to present that appeal to more than an infinitesimal and ever-decreasing portion of the population. The possibility of attaining the goal is at present too remote from the consciousness of the vast majority of mankind to have the desired effect.

This is not the time or the place to suggest a specific remedy for this evil. It is probable that a solution will be found only after a multitude of experiments in many directions, such as coöperation, profit sharing, education, and the like, many of which in the nature of the case must prove failures.

Whatever the final outcome may be it must accomplish two important results: it will give the workman a conscious share in the direction of the industry; and it will also, in addition to a guaranteed minimum wage that may as Hobson suggests be regarded not as wages but as cost, give him a share in the speculative gains or profits of the industry. So much is required to keep up the efficiency of production and to keep the workmen from sinking to the inefficiency of servile labor.

Nor does the tradition that anyone can acquire property under the present system, or the isolated instances of poor men who have become rich, negative this conclusion. The fact is that we have too recently escaped from a condition of abundant free land and substantial equality of wealth and opportunity resulting from and accompanying these unappropriated natural resources, to make any such historical examples pertinent to the present inquiry. It is pretty well agreed today that in the absence of specific and conscious social action, working through the state, social classes tend not only to perpetuate themselves, but, as time goes on, to become more and more consciously guided by class motives.

In the absence of such social action the United States now offers the most striking field for maintaining and perpetuating such classes. First, we have the greatest degree of inequality; next, we have the highest degree of rapid movement, at the same time that our large vested interests have already learned to act as a unit

to a greater degree than elsewhere, while our legal system of checks and balances prevents the government from holding such interests in check.

With our concentrated wealth and large-scale production, in the absence of a wise and conscious social policy, increased population and consequent rise in rents will tend to shut out an everincreasing part of the population from dominion over or ownership in the natural resources and implements and tools of production.

The vague phrases, fortunately heard less frequently than formerly, about the rich becoming richer and the poor poorer, whether true or not, have no bearing on this point. Experience has demonstrated that the whole system of individualism and individual bargaining places the weaker members of society, when left to their own individual devices, in such a position as to prevent not only their improving their economic status but even their maintaining their present position. Furthermore, the degree to which concentrated control of wealth has already gone tends to make the parties more and more unequal in bargaining power. Hence it becomes easier and easier for the concentrated wealth to increase the distance between the two classes, while the ability of individuals to pass from one class to another grows constantly less. The tendency of all natural forces, under present conditions, is to crystallize and intensify class distinctions.

The present form of organization drives more and more women and children into industry, the proportion of women gainfully employed to the whole number of persons so employed having increased from 13 per cent in 1870 to 21.2 per cent in 1910, while recent figures from the stock yards district of Chicago show that out of 194 families, in 94 of which the father is the sole wage earner, the fathers earn but 54.4 per cent of the total income. At the same time that this influx of women and children into industry is taking place, real, as distinct from money wages, have constantly declined since 1906.

The picture that I have drawn is not a pessimistic one. In the spirit of the earlier economists, I have merely tried to point out certain tendencies, and to show that if these tendencies were allowed to work unimpeded certain results, not pleasant to contem-

⁴J. C. Kennedy, cited by Streightoff, American Economic Review, December, 1914, p. 951.

⁶Rubinow, American Economic Review, December, 1914, p. 814. Cf. also W. I. King in Ely, op. cit., II, p. 844.

plate, would surely follow. I have presented a mere description of what awaits us in the near future if our present legal system, with its worn out individualism and doctrines of contract and competition, could be retained for a considerable period. But fortunately, as already indicated, it is neither socially desirable nor practically possible to maintain this system unamended.

It is true that the economists have not yet formulated a definite scheme of reform, and equally true that those who profit financially by the present system think they are unalterably opposed to any change. Nevertheless, all the more important economists have had their faith in the existing system profoundly shaken. In fact, the laissez-faire doctrine has been repudiated, hence the endless confusion in economic doctrines and teaching in America today.

We have rejected the old and have not yet discovered and formulated the new. We may still believe that wages are determined by demand and supply, but we are all now convinced that what the demand or what the supply will be at any particular time depends largely on the customs, institutions, constitutions, and laws of the land, and not on any merely abstract a priori, philosophical, or metaphysical speculations as to the economic man. We are now trying to work out such a social control over demand and supply as to make them what it is socially desirable they should be.

Let us ask once more whether there are any natural forces that can be relied upon to bring about the reörganization now admitted to be necessary if we are to make economic and social progress. Let us ask further whether such a needed readjustment means, as we are so often told, the destruction of private property and even of existing wealth, with the consequent decay of our civilization. Does such a change necessarily involve socialism, communism, or any other form of organization inconsistent with the maintenance of private property, retaining in private property all the elements which have in practice proved themselves conducive to the general welfare?

The chief emphasis today is on human welfare. While we have come to realize that we may at any one moment urge on our economic production at such a rate as to destroy the possibilities of similar production in the future, the doctrine of human welfare as against the abstract doctrine of natural production and distribution under a system of unrestrained competition simply means such a change in our philosophy, and such a modification of private property through law reform, as will put into operation

the doctrine that the state, representing society as a whole, must have a definite social ideal, aim, and program; and that our economic doctrines, aims, and methods must all fall within that program and form a part of it. This aim may be stated as the homely one that no one has a right to acquire, or to hold, or to use private property in a manner injurious to others, or to the permanent general interest of the society of which he is a part, Theoretically, this doctrine has always been a part of the doctrine of private property, but, unfortunately, we have assumed that certain uses were not adverse to the public interest, because we assumed that they could be brought under free competition, and that having once come within these bounds they could not be harmful. From this we concluded, therefore, that they were beneficial. We are asking, therefore, today as never before, and with great earnestness, what uses and practices are really advantageous to the public, and whether or not, despite the old economists, when one does that which brings financial gain to himself he does what is best for the public.

We are even inquiring, contrary to the wisdom of our fathers, whether the private citizen necessarily always knows his own interest, and, most of all, if he does know it whether he is always economically and politically situated where he can pursue that

private interest effectively.

The economists now, almost without exception, admit that our present institutions, customs, and laws do permit on a large and ever-increasing scale the use of individual and corporate property in a way that is not consistent with or conducive to public welfare

and equality of opportunity.

Such reform implies a large modification of our constitutional laws, and the democratizing of both politics and business in such a manner as to do justice to all and to give every one an equal chance in life and to see that every individual born into the world has an opportunity to develop his physical, mental, social, and spiritual powers to as high a degree as possible in view of the existing power of man over matter, that is, of the general productive power of the age and country in which he lives.

If economists do not take this view of the scope, methods, and aims of economic study, they will find themselves entirely side-tracked, and economics becomes merely an *a priori* or abstract science, with no more relation to human welfare than speculation

about the planetary system has.

To sum up: The old system has broken down, not because competition has disappeared or ceased to be important, but because the increasing inequalities of wealth, with the added facilities for combination, have made it impossible for the great mass of the people to compete on equal terms. "Under present conditions," as Walker says, "the game is played with loaded dice." At the same time, the constitution with its system of checks and balances has not expanded rapidly enough to enable us to meet the changed economic and social conditions satisfactorily. On the other hand, centuries of free schooling, free right of assembly, free speech, freedom of religious thought, extended suffrage, and the increased means of transferring persons, goods, and intelligence, have increased enormously the ability of the poorer classes to combine for political action. From this it follows, logically, that so soon as the dissatisfaction reaches a certain point political power must pass to the majority,6 that is to the working and non-propertied classes, whose members are becoming more and more class conscious. Furthermore, notwithstanding the great inequality in fortune, the working classes have sufficient interest in the outcome to give them hope and courage to work together for a reorganization of society. In spite of great divergence of opinion among them, there is a common feeling that, in the long run, economic reform can come only through political action. It is inconceivable that they should come into political power and not use that power for bringing about, through the state, the only organization including all the people, such economic changes as public opinion considers desirable in the common interest. When this idea is broached, we hear much of the danger of revolution, destruction of property, and the decay of civilization.

As against such dire prophecies, certain considerations should not be overlooked. First, the working people have been trained in political action and self-restraint for too many generations, and understand how much easier, safer, and more satisfactory such action is than violence. In the next place, they have too much at stake to risk it all on such a doubtful venture.

Notwithstanding the spectacle that Europe offers us today, the

⁶ "It is a chimerical hope to overpower or outnumber the middle class whatever modes of voting, whatever redistribution of the constituencies are really necessary for placing the government in their hands. Those, whether we like it or not, they will assuredly obtain."—J. S. Mill, Dissertations, II, p. 155.

American people in general have too high a degree of material well-being to risk it in such a mad and unnecessary attempt. Truly, the present war shows that people may still be induced to fight for what they consider racial or national existence, or even supremacy, but it is far from proving that they can be persuaded or compelled to fight for the purpose of maintaining a mere definition of property rights, and that too a definition that has already been rejected by the people who would in fact have to do with the fighting and later pay the bills for the struggle. The average American shrinks too much from the very idea of blood, slaughter, pain, and hardship, to enter upon any such a wild and senseless scheme.

On the other side, much as the concentrated vested interests believe they are wronged, they of all people shrink most from personal encounter and hardship. They might be willing to encourage fighting so long as they can control the government and compel, or induce, other classes to do the actual fighting and pay the bills for them, but the moment they see the control of government passing by peaceful means from their hands the spirit of fight and physical resistance fades away. The modern millionaire and his satellites are plotting and scheming, not fighting, animals.

Still better, the more enlightened among our rich men have already become convinced that the present situation is both undesirable and untenable. All that they need is to be convinced that any proposition promises real reform to cause them to throw themselves heart and soul into it.

While the great mass of factory and other social legislation of the past generation when rightly viewed is seen to be in strict harmony with the thesis herein maintained, unfortunately it has been heretofore generally regarded as a strict exception to a general rule or theory. In fact, it is an essential part of the modern theory of property and economics. It is based on the fundamental idea that the community, if it is to adjust itself to everchanging social circumstances, must have a distinct social aim to be accomplished through the agency of the state.

Under this doctrine economics will no longer be the science of private pecuniary gain resting upon a system of abstract assumptions, but the science of men in an organized society, working within a state with a conscious social purpose. Such a state will be effective only as it is easily amenable to a wisely directed public

opinion, representing, at any time, a clear majority of the community.7

It would seem to require no demonstration that a state politically, or an economic organization within a state, cannot be considered in stable equilibrium, or likely to endure unchanged, when under a wide suffrage and extended political rights the majority of the people want that system changed.

But this is not a disturbing thought. It means evolution, not revolution; not abolition of private property, but the bringing of the rights of private property into harmony with the desires and needs of the age. No sudden or violent change or destruction is needed, but a gradual, orderly, and peaceful modification and adaptation of institutions, and consequently of economics, to a modern, changed environment and to public welfare.

⁷ "The first requirement of a sound body of law is that it should correspond with the actual feelings and demands of the community, whether right or wrong."—O. W. Holmes, Jr., *The Common Law*, p. 41.

SPECULATION ON THE STOCK EXCHANGES AND PUBLIC REGULATION OF THE EXCHANGES

BY SAMUEL UNTERMYER

It is fortunate for the country that we are at last to have a dispassionate consideration of this vastly important subject in a forum where economic problems are fearlessly, dispassionately, and impartially discussed and analyzed on their merits. There has been so much of honest misunderstanding, senseless hysteria, and ignorant, demagogic denunciation of the Stock Exchange on the one hand, and on the other such a long, unbroken record of intemperate and misleading propaganda by the interested champions of the Exchange to justify the abuses of the system and its irresponsible form of organization, and such persistent misrepresentation of its critics, that it is a positive relief to find oneself in an atmosphere where the subject will receive the judicial treatment that its commanding public importance demands.

The partisan and disjointed discussions heretofore had, have been conducted under the unsatisfactory conditions under which much of our ill-digested legislation is considered, amid the heat, hurry, and confusion of committee hearings, distorted by bitterness and abuse of the champions of the reforms by the vast personal interests that conceive that their privileges are being attacked. There has been no opportunity for proper study and understanding. The merits of a proposed change of broad public policy can never be properly developed under such conditions. This is especially true, where, as here, there is arrayed on one side the most powerful body of financial interests in the land, with their endless business, social, and political influences and ramifications resisting reforms that are sought to be forced upon them, with unlimited funds and vast advertising patronage at their disposal and with incredible facilities for influencing public opinion through the nation-wide press bureau they are able to maintain.

The other side is represented only by a few scattered, disorganized volunteers with no personal interest in the question at issue, whose labors are prompted only by the public concern, and whose sole reward for their thankless championship is the enmity of the powerful army whose privileges are being assailed. I repeat that it is therefore a privilege to find such a forum as this for the discussion.

I shall take the liberty of reversing the order in which the two questions have been submitted for consideration, so that they will read as follows: (1) Should the Stock Exchange be subjected to regulation? (2) Should such regulation include the

suppression or restriction of speculation?

The New York Stock Exchange towers above all the exchanges of the country, exceeding many times in importance and in the magnitude of its dealings all the others combined. It absolutely controls the transmission and distribution throughout the country of the quotations of all the securities that are dealt in upon its floor, by exclusive contract with the Western Union Telegraph Company. All other exchanges are guided by its quotations. Their forms of organization and regulations are in the main framed on the lines of the New York Exchange, and I shall accordingly discuss the subject with reference to the New York Stock Exchange, intending thereby to include the others.

Permit me to explain at the outset that I have no patience with the legislators, agitators, demagogues, and ignoramuses throughout the country who regard the Exchange as a sort of gambling den or its membership as a coterie of gamblers whose activities should be suppressed. The Exchange is a wholesome public necessity. Without a legitimate public security market which is furnished by its machinery, properly controlled, no great business or financial enterprises would be possible. We can no more get along without it than without banks. It is, in fact, more important than any other agency of finance. Our ventures have reached a magnitude that private capital cannot support. Its elimination would soon paralyze the wheels of industry. It is not healthful or desirable that a few banking houses should monopolize the prestige and profit of acting as intermediaries between those who need the capital for these enterprises and the investors who are able to supply it. That need should be supplied by a public market for securities. It is because of its important place in the economic system that the greatest care should be exercised to confine it to its legitimate functions. Its power for usefulness is unlimited. Its disrepute is a loss and a misfortune to the entire community.

Judged by the standards of the past, no more honorable men than the general body of the membership of the Exchange can be found anywhere in any branch of industry. In some respects the code of ethics is above that encountered in any other calling. Transactions involving fabulous sums are conducted and obligations incurred without a scratch of the pen, and are concluded and discharged day by day without friction or question.

Like every industry and profession it contains black sheep within its fold, but unlike others its regulations and practices have heretofore held out to them and to the gamblers whose tools they are temptations, inducements, and immunities of which they have freely availed themselves, to the detriment of the Exchange

and the injury of the great body of its members.

There are phases of the business conducted on the Exchange, constituting at times the bulk of its dealings, that involve the most reckless and unconscionable forms of gambling, dishonesty, misrepresentation, and manipulation, and which have been so long tolerated that the members are obsessed on the subject of their right to continue these illicit transactions. Their state of mind is not unlike that which, until within a very recent time, had taken possession of officers and directors of railroad corporations as to their duties and obligations to the public and to their shareholders, and from which they are now slowly and painfully recovering. The same sort of awakening is in store for the Exchange, but its members will not see it. Methods that were considered legitimate ten years ago and that are still practiced in many quarters of the financial world are now seen to be intolerable. Others, such as the dealings of officers and directors with their corporations that are still permitted, will soon be defined as crimes, as they are in other countries. It will not, for instance, be long before bank officers and directors will be prohibited from exploiting their banks, and other corporate officers will be prevented from withholding information and speculating on advance knowledge.

The Exchange, properly regulated and administered, performs an invaluable service in our economic system, and is destined to still greater public usefulness if it can be rid of the abuses that inevitably attend its present irresponsible form of organization and can be placed under responsible public supervision.

I believe also that, except for the blunders of remaining open for two days in July after the world's other exchanges had closed their doors and of still permitting the evils of short selling and manipulation, our Exchange has on the whole met the exceptional conditions arising out of the war with wisdom and conservatism. True, it has assumed powers over the property and destinies of the millions of security holders of the country that are not tolerated by any other body on earth, public or private, and that seem incredible, but that arrogation of power, as I shall endeavor to show, is due to the absence of the governmental regulation to which the Exchange should be subjected. There are other criticisms as to its present attitude in permitting short selling within the minimum prices fixed by its self-imposed regulations, and there are fundamental abuses which it refuses to and will never voluntarily correct and which can only be removed through government supervision, to which reference will be hereafter made.

There have, however, been many minor reforms inaugurated within the past two years under the spur of the exposures and public criticism of its practices that were made in the so-called "Money Trust Investigation" by the committee of Congress known as the Pujo Committee. Whilst the Exchange ungraciously refuses to admit that these reforms have been forced by the public agitation due to this investigation, I believe that is now generally recognized to be the fact. The Exchange has at last partially awakened to a realization of its sense of public responsibility, but it strangely continues to resist all attempts to enforce responsibility or to so control it as to permit any public authority to inform itself of violations of law by its members or of abuses that now exist or that may hereafter arise from time to time. Through the elaborate press bureau that it maintains under the name of the "Library Committee" its reforms are exaggerated and its abuses and defects are hidden as never before in its history. As the result of this systematic propaganda and of the temporary diversion of public interest to international affairs, it is becoming daily more difficult to secure the necessary attention to this subject that so nearly affects the fortunes of the entire community.

The oft-repeated warnings of the advocates of governmental regulation of our stock exchanges of the perils to the country of the absence of such regulation are demonstrated by recent events to have been prophetic and grossly understated, notwithstanding the fact that we have fortunately thus far passed through the present crisis without encountering the disasters that we have invited by the absence of public control. Like flashes of lightning illuminating the landscape on a dark night the experiences that have come to us from this world cataclysm have lighted up the obscure cor-

ners of this problem and have exposed the specious arguments against regulation that have so long been permitted to pass uncorrected. The community at last begins to get a glimmer of the important mission of the Exchange; to realize that it is a public institution and an integral part of our national financial system and not a private business; that it is ridiculous that it should pose—as it has up to this time—as a mere convenient meeting place between the members of an unincorporated association in the transactions of which the public has no interest, or at most a remote, academic concern.

We are at last able to appraise at their true value the claims of its members, to which, strange to say, they have in the past been able to secure the sanction of the courts, that the rights and obligations of membership are to be likened to those of a private club.

In the light of recent events, demonstrating its dominating influence in our national and international financial structure, it seems incredible that its discipline, regulations, and transactions are subject to no judicial or administrative scrutiny or review; that it is governed by no law other then its own unrestrained will; and that it and its operations have by the mere fiat of its self-made rules been consecrated and set apart, outside and beyond the law,—a law unto themselves.

Yet such is the amazing situation in which the country finds itself. Applying every possible test to the determination of whether this is or is not an accurate and moderate statement of the actual conditions, what do we find?

1. The Exchange is unincorporated and is as such subject to no legal regulations or restrictions other than those imposed by its own members. Although there is and has been for many years upon our books a statute entitled "An Act for the Incorporation of Boards of Trade and Exchanges," it has not been found necessary to comply with that statute or to take out a charter under it.

2. Its membership is limited to 1100 persons. This limit was reached about forty years ago and has not since been permitted to be increased, notwithstanding the revolutionary changes in conditions of business and finance since that time. No public authority has any supervision over the selection or expulsion of members, the increase of membership, or over any matter connected with the formulation of its rules of trading or other

features of its management. Not even the courts are permitted to review its regulations for conducting the public business, or any other feature of its organization or manner of discharging its public duties. When a vacancy in its membership occurs through death, bankruptcy, resignation or sale of the right of membership, it can be filled only by a two-thirds vote of the Board of Governors, ratified by a majority vote of the Association. This action is also final and unreviewable by judicial authority or otherwise. By reason of this limitation of membership, a seat has of late years varied in price from \$30,000 to \$95,000, dependent upon conditions of business; and no securities can be bought or sold on the Exchange except through a member.

3. The exclusive power of discipline is vested in the Association through its committees. It may expel or suspend a member and thus destroy his reputation and occupation and deprive him of the right to earn a livelihood, on any grounds that it deems sufficient; and he has no right to review its action in the courts and can get no redress so long as he has had the opportunity of a hearing, without counsel, before the body composed of his competitors.

4. In the exercise of its unrestricted right of discipline, great abuses have developed. The Association requires every member to charge a fixed commission upon all purchases and sales for customers of securities that are listed on the Exchange, regardless of the price of the security. A share of stock that costs \$11 is charged with the same compulsory commission as one that costs \$200. Any member who violates or evades this rule or attempts by indirection to do so is subject to expulsion. The infraction of this regulation was characterized under oath by one of the most distinguished ex-presidents of the Exchange as "the most heinous offense a member can commit"-more heinous than frauds perpetrated by a member upon his customers, as is evidenced by the fact that the penalties which have at times been imposed for this offense have been more severe than those inflicted for obvious fraud. Expulsions and suspensions on this ground have been held not reviewable by the courts.

In the exercise of this unrestrained power of discipline the Exchange may expel a member for having had any dealings or communications with, or for even writing a letter to or speaking over the telephone with, a respectable member of a reputable

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rival exchange, or for buying securities for or from or selling them to or for such a person, even though the securities are not listed or dealt in on the rival exchange, or for that matter on any exchange. Incredible as this may seem, members have in fact been severely disciplined on that account. It has resulted in the most effective boycott of men who have dared to accept membership in another exchange. As a result, men in good standing in the community have found themselves unable to dispose of securities owned by them that are listed on the New York Stock Exchange and not listed on the exchange of which they are members, solely because they have been guilty

of membership in a rival exchange.

5. The Exchange is the sole judge of the conditions under which it will permit securities to be placed upon the official list of those that may be dealt in on its floor, and it may at its own discretion strike from the list securities that have been so listed, without notice either to the corporation or to its investors, who bought on the faith of the fact that the securities were so listed. Such action on its part is likewise not the subject of review or redress by the courts. The character and extent of the data that the Exchange shall from time to time exact from the corporations whose securities are thus listed for the information of the public rests solely with it. There is no protection to the public other than that which it chooses to afford, and no power to review or revise its action. Banks, life insurance companies, guardians, trustees, and others who hold, buy, and sell these securities are forced to rely entirely upon the voluntary and unreviewable action of the Exchange as affecting such securities. It formerly maintained on its official list securities of corporations that refused to furnish information of their affairs or even to disclose their earnings, and that were conducted as "blind pools" for the benefit of the insiders, who were thus enabled to manipulate the prices on rumors and "inside information." Amalgamated Copper and American Sugar Refining are illustrations of this class of dealings that were permitted. They had their alphabetical position on the list with the companies that were required to furnish information for public guidance. The only differentiating sign was an asterisk placed before the names of the "unlisted" corporations. They were placed there for gambling purposes and were at times by far the most active stocks on the list. That practice, happily, became a nightmare of the past some years ago, but its discontinuance was not accomplished without a struggle. The men who foisted it upon the Exchange and kept it there for their own profit, many of whom were leaders of finance, were permitted for years to exploit the public in that way to the extent of many millions. It is only when we look back upon the extent of these buccaneering projects that we realize the vast and growing improvement in the morale of the Exchange.

6. The so-called "continuous quotations" of prices are not available to any individual or corporation in the United States except with the express permission of the Exchange, and there is no right of review from its fiat to the courts or to any public authority. It may at any time suspend the publication of quotations and leave the security holders of the country to their own devices, without information as to the transactions in this public security market.

The latest recorded revolt illustrating the extent of this despotic power is in the form of a suit instituted within the past two weeks at Pittsburgh by John L. Moore & Co., a brokerage house of that city, against the Western Union Telegraph Company, in which the plaintiff alleges that in the exercise of the agreement between the Telegraph Company and the Exchange forbidding the Telegraph Company to furnish quotations to any person not sanctioned by the Exchange, the Telegraph Company has been instructed by the Exchange not to furnish the plaintiff with quotations and as a result the plaintiff's brokerage business will be ruined.

In the present state of the law on this subject Moore & Co. can probably get no redress. The pretext on which the Exchange exercises such power to control the action of an interstate common carrier is its desire to suppress "bucket shops," which it is admitted cannot conduct their illicit operations without the aid of these quotations. The same, however, is true of a broker doing a legitimate business. It is said, for instance (I know nothing of the merits) that Moore & Co. buy and sell stocks and bonds only for cash, and that unlike most members of the Exchange they deal only in the actual stock certificates and do not even buy or sell on margin. For years and until the Exchange closed on July 30 they received these quotations that are essential to their business. Now they are arbitrarily refused.

While the suppression of bucket shops is a consummation quite as devoutly to be wished (and quite as far from realization)

as would be the prevention of manipulation of prices on the New York Stock Exchange, the bucketing of orders is a criminal offense and can be detected and punished as such, like every other offense. It should not rest in the unrestricted power of any body of private citizens, through their control over the operations of an interstate telegraph company, to determine for itself and without the right of appeal to the courts or to any public authority, and without even giving a reason or the opportunity of a hearing, who is and who is not lawfully conducting a brokerage business and who shall or shall not receive the information that is necessary to his business existence. It should not be permitted to maintain a dangerous monopoly under the pretext of acting as a self-constituted policeman, with the added power of judge and jury, to determine the fate of citizens in this ex parte fashion.

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The sworn complaint of Moore & Co. may be untrue and the purpose of the Exchange may be commendable. The point is that the Exchange may, under existing law, admit its truth and still Moore & Co. can get no relief. To concede any such despotic power over the life of a legitimate business is a situation too

perilous to be tolerated.

By the express terms of the agreement recently executed between the Exchange and the Western Union Telegraph Company, the quotations are collected upon the floor of the Exchange by the Exchange and by it transmitted to the Telegraph Company, which distributes them only to such persons and agencies as the Exchange may direct, so that these quotations that are at the foundation of the business of the brokers throughout the country remain at all times under the exclusive control of the Exchange.

Assuming that this vast power of business life and death over the brokers throughout the country is at present being honestly and judiciously exercised, does that fact justify its existence?

Is it within the spirit of democratic institutions?

It is not so long since the power was used in the effort to destroy a small competitor in New York City—the Consolidated Exchange—and the latter was compelled to conduct a long strug-

gle for existence.

The following instances fairly illustrate the character of some of the powers recently assumed and exercised by the Exchange over the business of this country and the destinies of security-holders, growing out of the pending European war:

1. The Exchange forebade its members, under pain of expulsion, from buying, selling, or dealing in any class of securities, whether bonds or stocks, whether listed on the Exchange or unlisted, except with the express approval of a special committee selected by the governors and then only under certain regulations and restrictions as to the price, terms of delivery, and other conditions promulgated by the committee from time to time.

2. If you or I happened to own securities on which we were forced to realize to meet our obligations, or chose for any other reason to do so, there was no way of selling them on or off the Exchange, through any member, publicly or privately, below the prices fixed by this committee, nor except through its consent. Any one who was concerned in such a purchase or sale was subject to discipline.

Other powers quite as drastic and comprehensive were assumed relating to the operations of what is known as the "Curb Market," with which the Exchange has no more legitimate concern than "the man in the street."

The Curb is also a public security market, entirely separate from the New York Stock Exchange, with an independent membership, but such is the power of the Exchange that the members of the Curb are not allowed by the Exchange to deal in any securities that are listed on the Exchange or that the latter may at any time choose to place upon its list. For defying this prohibition the Exchange would forbid its members dealing with any Curb member or buying or selling any security listed on the Curb. That would mean the instant extinction of the Curb.

The members of the Curb conduct their business in the open street, within a roped line fixed by the police. They are subject to the inconveniences and interruptions of business due to the inclemencies of the weather and the passing traffic. They are well able and have long desired to locate under the shelter of a roof, but there is a regulation of the Exchange which would in that event prevent a Stock Exchange member from dealing with a Curb member. The Exchange shows no disposition to relent or relax that rule. Hence the Curb Association, a body with its own regulations (to which it adheres quite as rigidly as does the Exchange to its rules) is forced to remain in the street and to surrender to the big Exchange whatever business in securities the latter may from time to time elect to take from the Curb and unto itself. It is hard to believe that such things are possible.

Within the past few days we have read of a meeting of the Exchange, widely advertised through its press bureau, at which resolutions were passed congratulating and thanking the Committee of Five for its services in the late emergency and showering praises upon themselves for the manner in which they conducted the public business in that crisis. On that same day and the preceding day the "shorts" took control of the market and smashed the minimum panic prices of July 30 to such an extent that this same committee was forced to reduce the minimum in certain active speculative stocks. But for the wisdom of the committee in establishing a minimum these short-selling gamblers would have been free to precipitate a panic as they have often before done. The resolutions were fairly well deserved but they would have been better earned if the committee had entirely prohibited short-selling in this crisis, as they could well have done and as has been done by the London Stock Exchange by its recent rules since it has been, as it now is, under rigid government regulation.

I am not discussing the wisdom or necessity of the recently adopted rules restricting dealings in securities in the crisis through which we are passing, nor the arbitrary control by the Exchange over the transactions of its own members for private account in securities with which the Exchange has no concern, nor in assuming, as it does, to dominate the outside bond and Curb markets and the entire course of security dealings throughout the country, as reflected from its fountain head in New York. These may be very wise provisions if enacted under the supervision of responsible officials or subject to the veto of some such authority. It is not necessary to enter upon the merits of that discussion. The fact that the Exchange is physically able without outside assistance to inaugurate and enforce such far-reaching regulations affecting the tens of millions of individual security holders and all the great corporations throughout the country, and that there is now no legal restraint upon its action, is the most eloquent argument in favor of the necessity for public regulation.

My criticism is not of what has been done to meet this emergency, but of a financial system that not only permits but which it is claimed by its authors and those who are executing its self-made law renders it necessary for a handful of private citizens to seize and exercise such vast powers because there is

no constituted authority to protect the public or with the right to restrain, direct, or review their action.

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Herein lies the anomaly of our situation-unlike anything of its kind in the civilized world. If these gentlemen had chosen to permit dealings to continue after July 30, as many of them were desirous of doing and as they are said to have decided to do the night before, there would have been no public authority anywhere to restrain them. They would probably have bankrupted the banks, life insurance companies, and other public in-Fortunately for us these particular men at this particular juncture had the enlightened selfishness to realize that in the tottering markets which they would have encountered the following day if the Exchange had been opened the margins on their pledged collateral with the banks would have been exhausted and they would have bankrupted themselves. If the banks and brokers had been comparatively free of stocks and with plenty of cheap, "easy" money in hand, and a band of rich, reckless speculators had been in control, as has happened and may well happen again, imagine what a catastrophe could have been precipitated upon us with the cheerful, ever-ready aid of the "short sellers." I do not mean to imply that any such brutal thing would have been done, although we have had some unfortunate experiences of that kind on a smaller scale at times, that it would have been possible, and that there is no authority in any public officer to control such a situation, is the point I want to make in this connection.

The necessity for regulation is not to be tested by what was done but by what may be lawfully done under existing law without fear or opportunity of discovery or punishment, under given conditions and in the absence of regulative and restrictive laws. Security markets have been habitually raided and manipulated in the past and there has been no legal responsibility or redress. Assuming this did not happen to any extent in this emergency, does that fact render it any less essential to ensure legal protection against its recurrence, especially now that we know the extent of the peril? Why have we any repressive laws if we can rely on people refraining from public injury without fear of punishment? Does anyone doubt that the crashing of values during the two days the Exchange unwisely remained open was assisted if not precipitated by short selling? Or that it would have been more acute if speculators had been a trifle more daring

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or inside information had happened to be available? Or that it would not have happened anyway if the Exchange had not closed when it did? Why should the determination of such vital public policies be left in private and interested hands? It is incongruous and unthinkable no matter how well the power may have been exercised. Banks, trust companies, railroads, life and fire insurance companies, and a vast number of other industries in which the public is far less interested than in the Stock Exchange, were formerly regarded as purely private enterprises. It seems a long time and yet it is not so long since anyone would be so bold as to question the wisdom of their regulation. The pure food law, packing-house inspection law, and factory inspection laws are a few of the multitude of instances that will occur to you of the growth and recognition of the modern demand for supervision of industries involving the public welfare and protection.

The Stock Exchange and Clearing House Associations, the operations of which are more important to the public credit, security, and stability than any of them, are the only ones that have managed to remain immune. It is a great tribute to their power and is due also largely to the fact that their activities are highly specialized and no one has been sufficiently interested to educate legislative bodies to the perils of the situation. The present crisis has done much to accomplish this as to stock exchanges, and the new currency bill will in time so far supplant the clearing houses or curtail their powers as to render them a

negligible quantity in the financial system.

How differently these things are done "on the other side." And how much we yet have to learn from them. Immediately following the declaration of war and before England entered the conflict, the British Government, through the Treasury Department, promptly stepped in and closed the London Stock Exchange and it has ever since determined its policy. It will be for the British Government and not for the governors or members of the London Stock Exchange to say when and under what conditions it shall reopen. The French and German exchanges are and always have been essentially government institutions. All their operations are at all times under the most rigid and minute governmental regulation. There are elaborate statutes providing the conditions under which securities may be listed and dealt in and for the active participation of government officials in the conduct of the exchanges.

In like manner the Dutch Government at the outbreak of hostilities promptly took control over the Amsterdam Stock Exchange and has ever since directed its policy, although Holland is not at war. We alone permit this vast power to remain in private and interested hands.

Much that is confusing and misleading has been said and written in the course of the discussion of this subject as to the constitution of the Continental exchanges and more particularly as to the experience of Germany in its unsuccessful and disastrous attempts to stop speculation. The manifest purpose of this argument has been to lead the uninformed to believe that the efficacy of the then and now existing government regulation and jurisdiction over the general business of the Stock Exchange was in some way involved in that controversy, that it had proven a failure, and that the regulatory law had been repealed or materially changed so that it now conforms more nearly to the claims of the opponents of government control.

In order to make it entirely clear that there is no basis for any of these contentions, and at the same time to demonstrate the wisdom, efficiency, and success of government control, it may be proper at this point to refer briefly to the German and French systems and to the change that was found advisable in the German laws that had been passed for the purpose of restricting speculation and that had reference solely to that branch of the subject. There has never been any change in the situation of the German and French stock exchanges as essentially government institutions. They are and have been as completely a part of the machinery of the government as is our Treasury Department or the Bureau of Commerce or any other of our governmental agencies. Their membership consists of private individuals, although that of the Paris Bourse is limited to seventy members, all of whom are government appointees and enjoy a government monopoly of the business.

In 1896 the German Agrarian party procured the enactment of a law that was intended to modify the then existing governmentally approved regulations so as to curb speculation in grain, commodities, and mining and industrial securities. The subject of the legislation is admirably treated by Professor Henry C. Emery, of Yale University, to whom we are to have the pleasure and privilege of listening today, in a carefully considered article published in the Yale Review of May, 1908, under what seems

to me the misleading title of "Ten Years Regulation of the Stock Exchange in Germany." The features of the law discussed by Professor Emery had to do entirely with the attempts to limit speculation in stocks of mining and industrial companies. It did not seek to do away with or modify the complete government control of the machinery and operation of the exchanges, which were then and ever since have been and are now a part of the fundamental statute law of the German Empire. It was increased and amplified rather than restricted by the law of 1908 to which Professor Emery refers as the act repealing the law of 1896.

The course of the legislation of 1896 is thus accurately described by Professor Emery:

It should be said, however, that the original bill was the result of a very remarkable inquiry made by a special commission, whose report constitutes the most important body of material on the whole subject of speculation. The proposals of the commission, recognizing as they did the necessity and legitimate function of speculation in modern business, were relatively moderate. In the Reichstag, however, the Agrarian party had the upper hand and much more radical provisions were included in the act as finally passed. Without considering the regulations providing for a closer government supervision of exchange dealings, we may note at once the three most important provisions.

1. All "Exchange dealings for future delivery" (Borsenterminge-schäfte) in grain and flour were forbidden.

2. All "Exchange dealings for the account" (Borsentermingeschäfte) in the shares of mining and industrial companies were forbidden.

3. An "Exchange Register" was established in which was to be entered the name of every person who wished to engage in exchange transactions for future delivery. Contracts made by two persons entered in the register were declared binding and exempt from the defence of wager. Where either party was an unregistered person the contract was void.

It is claimed that the effect of this legislation was (1) to prevent dealings in commodities for future delivery and in mining and industrial shares for the "account" (which means transactions that are to be adjusted at the next monthly settlement), and (2) thus to divert German capital to the financial centres of other countries and to build up the great banking houses at the expense of the smaller and less prominent bankers by reason of the fact that the latter, who also received money on deposit, feared the injury to their reputations as conservative bankers from the placing of their names on the register.

The result of the prohibition against dealings in mining and industrial shares "for the account" was to require them to be settled for and taken up the following day. This is now and always has been the rule with us as to all transactions on the Exchange, but in Germany the settlement of these transactions is made monthly and in England semi-monthly. In order to meet this requirement the course of business had to be altered so that the brokers could borrow from the bank or bankers, with the securities as collateral, the money with which to pay for the purchases made, as is done with us. The only effect of the modification in 1908 of these provisions of the law of 1896 was to reverse this practice and to reinstate the method of monthly settlements as being better adapted to the customs prevailing in Germany.

Whilst the history of this legislation and its effects may be instructive on the merits of permitting speculation within certain limits on public exchanges, it is difficult to understand what it has to do with the main proposition we are here to discuss—whether there should be *some form* of government supervision, regulation, and control of the Stock Exchange.

Whether, to what extent, and under what restrictions speculation shall be permitted have nothing to do with the determination of that fundamental question.

Let us not be misled on this point. There has long been the most effective governmental regulation in the Continental countries and there is no proof of failure or friction from that cause. From all accounts it has been wholesome and in the public protection, except where it has gone the length of attempting to outlaw all forms of speculation. Whether the extension of such regulations to the extreme point to which it was attempted in Germany by the law of 1896 was wise or proved effective is a debatable question, with which we have nothing to do as bearing upon this branch of the discussion.

The first six sections of the German law of 1908, consisting of 38 sections and occupying 79 pages of U. S. Senate Document No. 574, which is said to have modified and superseded the law of 1896 on the subject of speculation, and which is the existing law regulating stock exchanges in Germany, read as follows:

Section I. Exchanges may be established only with the permission of the state governments (by which is meant the governments of the federal states of the German Empire). The latter may also order the suspension of operating exchanges.

The state governments exercise supervision over the exchanges, which supervision may be intrusted to commercial organizations (the chambers of

commerce and commercial corporations).

Notifying offices, clearing banks, clearing associations and similar institutions connected with the exchanges, are also subject to the supervision of the state governments or the commercial organizations exercising the direct supervision.

Section 2. The state governments are to be represented on the exchanges by state commissioners, who shall control, in accordance with the detailed instructions given to them by the state governments, the transactions on the exchanges, and enforce the laws and provisions concerning the latter. The commissioners are authorized to be present at the business conferences of the members of the exchanges, and to call the attention of the said members to any abuse which may take place. They are also required to report all abuses on the exchange and to suggest preventive measures.

The activities of the state commissioners in particular exchanges may, with the approval of the Bundesrat, be restricted to coöperation in the proceedings of the courts of honor, or, in case of small exchanges, the appointment of state

commissioners may be entirely dispensed with.

Section 3. An expert exchange committee (Borsenausschuss) is to be formed with the purpose of reporting upon matters which are, according to this law, within the jurisdiction of the Bundesrat. The exchange committee is authorized to tender its motions to the Imperial Chancellor and to consult

with experts.

The exchange committee is to consist of not less than thirty members, who are to be elected by the Bundesrat for a period of five years. Members of the committee are eligible for reelection. One half of the members are to be elected upon nomination by the members of the exchange. The Bundesrat is to determine the number of candidates which the individual exchange departments may nominate. The election of the other half is to take place with special consideration of the conditions of agriculture and industry.

The regulations for the committee shall be enacted, after a conference with the latter, by the Bundesrat. The daily remuneration and traveling expenses to be allowed to the members of the committee are to be fixed by the

Bundesrat.

Section 4. Regulations must be issued for each exchange separately.

The regulations must be approved by the state government. The latter may demand the incorporation of certain provisions in the regulations of the exchange, and particularly the incorporation of the provision which stipulates that the interests of agriculture and allied trades be adequately represented in the boards of directors of the produce exchanges.

Section 5. The exchange regulations shall contain provisions concerning (1) the administration and the departments of the exchange, (2) the transactions authorized on the exchange, (3) the admission of the exchange, and (4) the quotations of prices and rates.

Section 6. The regulations may allow the use of the exchange for branches of business outside of those designated in section 5, figure 2, unless particular sections of this law (sees. 42, 43, and 51) provide to the contrary. In the latter case the persons concerned may lay no claim to the exchange for any purpose other than that for which it was established. The Bundesrat is authorized to prohibit either completely or partially the use of the exchange for particular branches of business.

The Bundesrat is a department of the Imperial Government. The regulations that have been established under this authority cover in the most minute detail every feature of administration. "Suspension over the brokers shall be exercised by the Chamber of Brokers (in which the government is represented) and the State Commissioner."

Elaborate provisions are made for the trial of a member for violation of the rules by a so-called "Court of Honor," in which the government representatives participate, and for the right of appeal. The requirements for the listing of securities constitute the most significant and carefully worked out—as they are by all means the most important to the public—of all the features of this splendid body of laws. They involve the fullest disclosure of all the details of the corporate assets, securities, business, earnings, etc., and the issue of a public prospectus containing the details required by law to be specified when the securities are offered for sale.

Time will not permit and it will serve no useful purpose to discuss the many other particulars of this model legislation. Suffice it to say that at every step the public safety and welfare are considered and its interest is safeguarded. The same is true of the French law, which is equally exacting in its demands for official supervision of the exchange and publicity of the affairs of all corporations whose securities are there listed.

The contrast between the solicitude and protection with which the transactions on the Continental exchanges are surrounded in the public interest and the reckless disregard of the public that has characterized our failure to deal with this subject is not flattering to our capacity for self-government.

A passing survey of the intimate public relations of the Stock Exchange to our national and international financial life will demonstrate the enormity of the offense of omission of which Congress has been guilty in permitting its organization, management, and operations to be conducted throughout all these years without supervision or control. Many of the vast illegitimate fortunes that have debauched our citizenship are attributable directly to that cause. For many years the pretended market prices of securities of our greatest corporations have been "rigged" and manipulated at the will of a handful of gamblers and operators, and the people of the country have been literally robbed of hundreds of millions of dollars through such transactions. Some of the best known names in the country were those of men who amassed great fortunes from the recognized business of "operators" in the securities of given corporations that they

were employed to manipulate, sometimes on the "bear" side and sometimes on the "bull" side of the "market." Nowhere was there any restraint upon the malign activities of these men or their powerful and respectable principals, among whom were numbered the greatest financiers of the country.

The following from the testimony of Mr. Frank K. Sturgis, one of the then governors and a former president of the Exchange, before the Pujo Committee is instructive on this point:

Q. Very well; that is an answer. How do you justify as legitimate the transactions of a pool or syndicate in giving out buying and selling orders to brokers for the purpose of lifting the price of the stock or of depressing it?

A. Those are the acts of individuals. I cannot be responsible for what thousands of people throughout the country do.

Q. Do you seek to justify it?

- A. It depends entirely upon circumstances. I have already said that under certain conditions, orders given out, commissions paid, no collusion whatsoever, the broker who buys not having the slightest idea where the order comes from that the broker executes to sell—I say it is not an illegitimate transaction.
- Q.... Will you be good enough to answer that question? Is not the operation, at times, resorted to to depress prices and at other times to lift prices?

A. Yes; I can consistently answer that.

Q. You approve of those transactions, do you?

A. I approve of transactions that pay their proper commissions and are properly transacted. You are asking me a moral question and I am answering you a stock-exchange question.

Q. What is the difference?

- A. They are very different things.
- Q. I thought so. There is no relation between a moral question, then, and a stock exchange question?

A. Sometimes.

Another witness (Mr. Morse at p. 719) described the mechanism of manipulation as practiced on the Exchange as follows:

He is the gentleman who manipulates the stock, giving the buying and selling orders.

If he merely wishes to make a stock appear active, he gives buying and selling orders in about equal volume; if he wishes to put up the price, he gives an excess of buying orders; if he wishes to depress, he gives an excess of selling orders.

Statistics were presented to the Puju Committee of thirteen selected active stocks dealt in on the Exchange, showing day by day, month by month, and year by year for many years, and up to the time of the inquiry in 1913, the character and extent of the dealings, by way of illustrating the fabulous proportion to which manipulation had been permitted as the result of the absence

of regulation by public authority. It is impracticable to reproduce those schedules here, nor was it claimed that all these transactions represented manipulation, but the following summary from the report of the committee, based on that evidence, will give a faint conception of the extent to which this orgy of gambling was carried:

Stating the results shown, only in the most general way, it appears:

1. That there has not been a year since January 1, 1906, when the Reading Co.'s entire common stock issue listed and subject to sale was not sold at least twenty times over and from that on up to forty-three times; that in a single month of that period it was sold six times over and that in only two months of the entire period was it sold less than once over in a single month; and that although it is a dividend-paying stock the number of shares transferred on the company's books averaged for the period 8.6 per cent of the shares sold.

In 1906 and 1907 there were in all 1,400,000 shares of Reading Common stock listed. There were over eighty-one million shares sold in that time, starting at \$164 per share and ending at \$90. Those transactions represented over eleven billion dollars in money in sales and the same amount in purchases.

2. Summarily stated, it further appears that in each year since January 1, 1906, the entire listed common stock issue of the United States Steel Corporation has been sold five times over each year on the average, while the number of shares transferred on the company's books has averaged 25 per cent of the number sold.

In United States Steel with 5,084,000 shares of common stock outstanding there were seventy-four million shares sold and the same number bought in 1909 and 1910. In a single month (January 1910) there were over six million shares sold.

It will be said that this largely represents speculation. But is it honest speculation or speculative excitement brought about by pool manipulation? What part of it is pure manipulation?

Here again there have been selected by way of object lesson only a few of the instances that might be multiplied, but prominent cases have been taken to illustrate the point. Until these practices are made discoverable and punishable there is no reason why they should not be repeated when conditions are again favorable.

Many of our great fortunes have been amassed by these methods. Who first knew when U. S. Steel common stock was to be put upon a dividend basis? Or when Union Pacific was to increase its dividend to 10 per cent? Or when Amalgamated Copper would reduce or pass its dividend? Or when and on what basis it would resume dividends? The determination of these questions generally rests with one or at most a few men in each company. It was natural that they should make use of their advance knowledge so long as there was no law or public sentiment to restrain them. But the temptation to force dividends and to suspend dividends and otherwise to use their vast power are too great. They must be removed if we are ever to have honest corporate management.

It may be that under the new order of things we shall not have the same class of men in our boards of directors. That is probably true. The incentives will no longer be there. They were dishonest incentives but strange to say it was not considered dishonest for a trustee to exploit his shareholders. It was considered rather clever even to the point of selling the stock of his own company "short" and shaking out his shareholders. It should be made impossible for the men who are in control of these

It should be made impossible for the men who are in control of these vast enterprises to go on fleecing the public. It is high time that they were brought to realize that they are trustees for their shareholders.

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- 3. That in the same period the entire common stock issue of the Amalgamated Copper Co. has been sold eight times over each year, on the average, while the number of shares transferred has averaged about 20 per cent of the number sold.
- 4. That since January 1, 1906, the entire listed common stock issue of the Union Pacific Railroad Co. has been sold eleven and one-half times over each year, while in 1912 the number of shares transferred was only 16 per cent of the number sold.
- 5. That in 1912 the entire listed common stock of the American Can Co. was sold eight and one-third times over, while the number of shares transferred was 25 per cent of the number sold.
- 6. That since January 1, 1906, the entire listed common stock issue of the Rock Island Co. has been sold twice over each year on the average, while the number of shares transferred has averaged a little more than 27 per cent of the number sold.
- 7. That since January 1, 1906, the entire common stock issue of the American Smelting and Refining Co. has been sold twelve times over each year on the average, while the number of shares transferred has averaged about 15 per cent of the number sold.
- 8. That since January 1, 1906, the entire listed common stock issue of the Eric Railroad Co. has been sold more than twice over each year on the average, while the number of shares transferred has averaged only 30 per cent of the number sold.
- 9. That since January 1, 1906, the entire listed common stock issue of the Consolidated Gas Co. has been sold more than once over each year on the average, while the number of shares transferred has averaged only about 40 per cent of the number sold.
- 10. That since January 1, 1906, the entire listed common stock issue of the Brooklyn Rapid Transit Co. has been sold six times over each year on the average, while the number of shares transferred has averaged 23 per cent of the number sold.
- 11. That since January 1, 1903, the entire listed common stock of the Colorado Fuel & Iron Co. has been sold five times over each year on the average—in 1906 eighteen times over—while the number of shares transferred has averaged less than 20 per cent of the number sold.
- 12. That in October, 1912, the first month during which the common stock of the California Petroleum Co. was listed, the entire issue was sold more than three and one-half times over; and
- 13. That in the seven months from April (when it was listed) to October, 1912, the entire common stock issue of the Mexican Petroleum Co. was sold nearly nine times over.

In answer to this showing we are told,

- 1. That these statistics do not prove the manipulation of prices since there is no way of determining which of the transactions represented honest speculation and which represented dishonest speculation in the form of manipulation or fictitious purchases and sales; and
- 2. That these transactions are now made unlawful in the State of New York through the enactment in 1913, following the disclosures of the Pujo Committee, of a bill entitled "Manipulation of Securities," by which statute such acts are constituted misdemeanors.

In point of fact the law in question is a mere blind. It does not define manipulation. On the contrary it legalizes and per-

petuates the existing abuse by excluding the worst features of manipulation from the definition, which should have included them. In defining manipulation the offense is made to apply only to cases in which no simultaneous change of ownership is effected. It is confined by the terms of the act to "all pretended purchases or sales whereby no simultaneous change of ownership is effected." The bill is aimed only at fictitious transactions. Manipulation of securities is not now accomplished to any appreciable extent by fictitious transactions, although it was formerly conducted at times by that means. As now practiced it does result in a change of ownership, so that the most widespread forms of manipulation practiced on the Exchange are not reached by this bill. It stands in the way of effective legislation to prevent manipulation.

I do not propose to discuss here at any length the ethics or merits of speculation except in so far as it is accompanied by manipulation or short selling. There is much to be said in support of the argument that there can be no broad and active public market in the absence of speculation. If it can be established that there should be regulation, public authorities will determine the subsidiary question of whether and if so to what extent and under what conditions speculation shall be permitted.

An interesting and instructive pamphlet has been published on this subject within the present year by Mr. John Henry Piper, entitled "The Technology of Stock Market Manipulation."

The author quotes as follows from the book of Mr. W. C. Van Antwerp (now one of the governors of the Stock Exchange, who conducts its vast press bureau) entitled "The Stock Market from Within":

The great evil of speculation consists in the buying of securities by uninformed people who cannot afford to lose.

He analyzes and dissects that assertion with great skill, evidencing an intimate knowledge of stock market technique, and concludes with the suggestion that he has proved that Mr. Van Antwerp should revise this statement so as to read as follows:

The great evil of speculation consists in the buying and short selling of securities by the people who cannot afford to lose all the time, or who do not lose all the time but who do lose all, in time.

Or:

The great evil of speculation in Wall Street is the buying and short selling of stock by people deluded with the idea that they speculate

in values, whereas they only gamble in manipulated prices; and this evil will never be corrected until the people are informed that the essential thing for a speculator to know is the technical or manipulated position of the price of a stock in relation to the plan of campaign that is being engineered by outside financial powers who have the public, the Stock Exchange, especially the heads of it, under their heel.

Summarizing Mr. Piper's deductions, they are based on the following premises, which I believe are in the main correct as applied to the small operators and people of limited means who speculate in stocks and who are not members of pools or "insiders" with unlimited means for manipulating or controlling the market in the particular stock:

- 1. That about 98 per cent of those who speculate in Wall Street sooner or later come to grief.
- 2. That with the development of "high finance" (which he characterizes as synonymous with dishonest finance) the dealings on the Exchange have become mainly speculative and that prices are regulated, not by intrinsic values, but by the technical phase of the market created by the manipulation of the particular security by the big interests that happen to be interested in operating in it at the time, except as to the small proportion of dealings that are of a strictly investment character.
- 3. That the man who bases his speculative operations in a given stock upon a study and mastery of the past, present, or future merits of the property is bound to lose, as against the speculator who ignores those factors but acquaints himself with the identity and purposes of the individuals or men constituting the pool who are dealing in the stock; that if they are operating without price limits or within certain limits to bring about a rise or fall in the price or to make money trading back and forth and have the necessary means or financial support, the stock will fluctuate within those limits regardless of its merits so long as that sort of activity is being continued.

In the main these propositions are true. Manipulation of prices is the great curse of the Exchange. It paralyzes its usefulness. The arguments in favor of speculation are destroyed by the presence of manipulation. It is said by the defenders of speculation that it represents the collective judgment of the value of a security; that besides creating an active market it furnishes the supreme test of value. Whether that be true as applied to honest speculation it is not necessary to determine so long as manipulation is tolerated. Manipulation is dishonest speculation. It is playing with marked cards. It converts the Stock Exchange into a mock auction. If there were no other reason for demanding

governmental supervision of the Exchange (and there are many apart from those already discussed), the fact that without regulation manipulation cannot be discovered, would be conclusive of its necessity. Manipulation may not exist at the moment, but when confidence, activity, and speculation revive it will exist in the future as it has in the past unless it is checked by regulation that will furnish the means of discouraging and punishing it.

There may be said to be three principal forms of manipulation, apart from those that were formerly conducted through what are known as "wash sales" and fictitious transactions, which have largely been abandoned, and others which it will not be necessary to discuss.

1. The most common and most vicious form is effected by what are in substance bogus purchases and sales to create a false appearance of activity for the purpose of unloading the stock on the public at high prices. The same person or group gives buying orders to one set of brokers and selling orders to another but the selling orders exceed in volume the buying orders until the stock is marketed. The apparent purchases and sales may and often do exceed the actual purchases by the public ten or twenty over. In order to actually unload one hundred shares on the public the manipulator may have to apparently deal in thousands of shares. So long as commissions are paid on these sham transactions on both sides of the bargain the Exchange has regarded them as entirely legitimate, even though the real nature of the dealing is apparent from their volume and from general report and can readily be verified from the books of the brokers, to which the Exchange has free access at all times.

2. A series of transactions conducted for the purpose of acquiring or selling a large block of the stock of a given corporation not for investment but with the intent of realizing an immediate profit, brought about by purchases and sales that are calculated to affect the price in the way best adapted to accomplish the end in view. If the purpose be to accumulate stock so as to sell at a substantially higher level, the plan involves selling part of the accumulations as the stock rises so as to depress the price and then make larger purchases. If the intention is to sell the opposite course is adopted. The ultimate object is to buy stock that you do not want or to sell stock that you do not want with the view of affecting the price.

3. Where a new security is to be introduced, instead of ad-

vertising its merits by the publication of a prospectus or by open solicitation, the security is here again given a false appearance of activity to attract dealings. After the public has been led to buy on the assumption that it is acquiring a security with an active market that is readily saleable, those who were interested in creating this impression and who have probably disposed of the stock they had to sell find it unnecessary to continue the heavy expense of paying commissions on what are in effect fictitious transactions, and the buyer's apparently active market gradually and sometimes suddenly fades away.

Under the head of "Manipulation of Prices" the Hughes Commission had the following to say:

A subject to which we have devoted much time and thought is that of the manipulation of prices by large interests. This falls into two general classes:

1. That which is resorted to for the purpose of making a market for issues of new securities.

2. That which is designed to serve merely speculative purposes in the endeavor to make a profit as the result of fluctuations which have been

planned in advance.

The first kind of manipulation has certain advantages and when not accompanied by "matched orders" is unobjectionable per se. It is essential to the organization and carrying through of important enterprises, such as large corporations, that the organizers should be able to raise the money necessary to complete them. This can be done only by the sale of securities. Large blocks of securities, such as are frequently issued by railroad and other companies, cannot be sold over the counter or directly to the ultimate investor, whose confidence in them can, as a rule, be only gradually established. They must, therefore, if sold at all, be disposed of to some syndicate, who will in turn pass them on to middlemen or speculators, until in the course of time they find their way into the boxes of investors. But prudent investors are not likely to be induced to buy securities which are not regularly quoted on some exchange, and which they cannot sell, or on which they cannot borrow money at their pleasure. If the securities are really good and bids and offers bona fide, open to all sellers and buyers, the operation is harmless. It is merely a method of bringing new investments into public notice.

The second kind of manipulation mentioned is undoubtedly open to serious criticism. It has for its object either the creation of high prices for particular stocks, in order to draw in the public as buyers and to unload upon them the holdings of the operators, or to depress the prices and induce the public to sell. There have been instances of gross and unjustifiable manipulation of securities, as in the case of American Ice stock. While we have been unable to discover any complete remedy short of abolishing the Stock Exchange itself, we are convinced that the Exchange can prevent the worst forms of this evil by exercising its influence and authority over the members to prevent them. When continued manipulation exists it is

patent to experienced observers.

The fact is that manipulation is dishonest whether resorted to for the purpose of introducing a new security or for any other purpose. True, it is six years since the Hughes Commission made its report and there were many things then tolerated in corporate

management and in the financial world generally that would not dare be attempted today, thanks to the exposure of corporate abuses by the much-despised "reformers" and to the improvements in moral standards of business for which their unwelcome activities are responsible. But it is still inconceivable that even in 1909 a body of New York gentlemen as distinguished as were the members of this commission should have become so permeated with the customs and atmosphere of the financial world in which they moved as to have been led into putting in an official document the statement that manipulation "which is resorted to for the purpose of making a market for issues of new securities is unobjectionable per se," or that "It is essential to the organization and carrying through of important enterprises." It is nothing of the kind. It is distinctly disreputable and the Exchange will shortly be made to see it in that light as they have been taught to see other practices that they once thought to be legitimate.

Is it to be wondered at that no legislation looking to the correction of the abuses that were pointed out by this Commission followed its report and that nothing was done in that direction until July, 1913, following the public exposure by the Pujo Committee of the same conditions that this Commission privately investigated? Is there any occasion for surprise that there was no abatement of the practice of manipulation in view of the quasi-encouragement lent to it by this report? It is no exaggeration to say that the bulk of the securities on the list has been at one time or another manipulated-not for the purpose of creating a market or an appearance of activity in a new security, but, as stated in the Hughes Report, either "to create high prices for particular stocks in order to draw in the public as buyers or to unload upon them the holdings of the operators or to depress the prices and induce the public to sell."

The greatest sufferers from this form of swindling are not speculators but the small honest investors. The use of the market news columns of the newspapers is an invariable accompaniment and a necessary part of the equipment in playing the game. The payment of dividends represented to be earned but only too frequently not earned and the publication of articles calculated to show the prosperous and growing condition of the property attract the conservative investor. With such instances in mind as Rock Island, Metropolitan Street Railway, Third Avenue

Railroad, and New Haven, all selling at one time at over \$200 per share and paying large dividends and all of them since bankrupt or nearly so, what chance has an outsider of getting a square deal? What had become of the "insiders" investments in these properties when they came to grief? True, they still held control of the management, but the dear public, the widows and orphans, and men and women of small means who through years of toil and self-sacrifice had saved and scraped together the money with which to buy what they were led to believe was

a safe, conservative investment, held the securities.

If manipulation can be made disreputable and can be discovered and punished, it can be prevented. If it can be prevented there will be no incentive for concealment and misrepresentation of the condition of a property. It can never be discovered until the transactions on the Exchange can be officially supervised and the books of its members subjected to inspection of some public authority. The Postmaster General is the logical official to whom to delegate this duty. These quotations on which the investors of the whole country rely are distributed through the mails, by telegraph and in the newspapers. If they are fraudulent and fictitious, representing bogus or manipulated transactions intended to deceive investors, the originators of the frauds should be punished through the same machinery as the Post Office Department so successfully employs to detect and prosecute other false statements that are carried in the mails. What is the difference between falsely describing the merits and value of stock representing a mine or a patent or any other form of business venture by means of a circular or advertisement and the use by these captains of high finance of the machinery and published quotations of the Exchange and of market "puffs" and press bureaus, which is their means of advertisement to attract investors to stocks that they are selling by having it appear that vast quantities of the stock are being daily bought and sold at given prices, thus deliberately representing that the general investing public believes that they have that value and are actively buying and selling them when in point of fact there are no such transactions to any extent except such as are being manipulated by them for the express purpose of deceiving and drawing in the unwary? The methods of the big operator, that are now considered legitimate, are far more insidious, dangerous, and effective than are those of the man who plies his disreputable and precarious trade through circulars and advertisements. The latter is at least forced to disclose his identity and to be reasonably cautious lest he bring himself within the clutches of the federal law, which is ever on the alert to discover these violations; but the powerful men of high finance who have for years practiced this game with immunity are able to hide behind respectable and influential brokers and the machinery of the Exchange. For every investor who is swindled by the former method, tens of thousands are victimized by the latter. The former generally lands in jail; the latter are financial giants, philanthropists, leading citizens and pillars of society. Their offense is the same, only their methods are slightly different. It is the prostitution of the machinery of the Exchange that renders their raids on the public possible.

Paul Clifford's occupation was humane and courageous beside theirs. He was at least kind and generous hearted and took his chances. They "keep prayerfully within the law"—a law that is a disgrace to a community that rests in the smug self-complacency that it is civilized. The Exchange can put an end to this colossal confidence game whenever it chooses, but it is evident from its attitude that it will never choose, except spasmodically, when it is under fire, until it is compelled. It can never be compelled to do so until the books of the brokers can be opened and the facts exposed.

In view of the overwhelming evidence as to the existence of manipulation and the reports of various committees on the subject, I fail to understand why it is constantly asserted that there is no proof of the existence of manipulation, nor why we are constantly challenged in the face of these findings to disclose "when, where, or how these alleged transactions manifest themselves."

It matters not, however, whether the work of federal supervision be in charge of the Post Office Department or of the Treasury Department as part of the financial system, as in Continental countries, or of the Bureau of Commerce so far as concerns the quotations of shares of interstate corporations or of the Interstate Commerce Commission as applied to railroads, except that under our constitution the authority to regulate through the Post Office is less open to legal question.

Unless the power to unearth these frauds is lodged somewhere they cannot be discovered and manipulation cannot be stopped. The Exchange now has that power over the books of

its own members, but to ask or expect them to expose the lawbreaking of their own members, by which they earn a large part of their income and which the Exchange encourages and insists to be within the rights of its members, is hardly a reasonable

proposition for discussion.

Mr. Sturgis said that paying commissions to manipulate a market was like spending so much money for advertising the security. He was quite oblivious of the fact that a man who in the ordinary course of business should sell stock by advertising that so many thousand shares were actually being bought and sold day by day at a given price, and who was actually "going through the motions" and paying commissions on both sides of the transaction for the sole purpose of deceiving would-be purchasers whom he was thereby seeking to attract in the belief that such purchases and sales were genuine, would clearly be guilty of larceny. Yet that is precisely the intent and effect of these manipulated transactions that have formed a large part of the business of the Exchange. It is passing strange that the members are so obessed by self-interest that they cannot appreciate the perfect analogy in principle between the two transactions.

Anyone who is interested in creating an active market in a given security should hereafter be required to frankly set forth his purpose over his own signature, advising its purchase, for which some one can be held responsible, instead of continuing the underhand methods of false rumors of impending developments, "melons" to be cut, dividends to be increased, large earnings, great market activity (manufactured for the purpose of misleading), etc., that are the accompaniments of "creating activity," "stimulating speculation," and of the various other forms of manipulation.

Successful manipulation of established securities depends on these methods. In order to get the speculative public interested in the stock there must be "something doing" in it. They must be made to believe that they are getting advance information of what is "doing." The whole performance when thus conducted

is essentially in the nature of a "confidence game."

When manipulation has ceased or effective means for its discovery has been supplied, the time will have arrived to take up the question of speculation. Then and not until then can we have open, honest speculation based upon conceptions of value. Then and only then will speculative transactions furnish a guide to values.

I have read with interest and instruction the articles, addresses, and testimony of Professor Emery on this subject and would be at many points in accord with his views as to the value of speculation if it could be disassociated from manipulation; but I am unable to agree to his argument that there should be no limit even upon honest speculation.

I take issue with him distinctly in his championship of unrestricted short selling and insist upon the necessity for governmental regulation of all transactions on stock exchanges, which he opposes.

Here again the events of the past five months have demonstrated the peril of unrestricted short selling. The Exchange has been forced to admit that it is an evil that should be guarded against in troublous times by the enactment and rigid enforcement of a rule, now in force, under which an arbitrary minimum price has been fixed upon the bulk of its listed securities, so that they cannot be dealt in—that is, sold short—below that figure. Now that the London Exchange is under control of the Treasury Department all short selling is forbidden. The Stock Exchange view of short selling that prevailed before the experience brought about by the war is fairly set forth in the testimony of Mr. Sturgis before the Pujo Committee, as follows:

- Q. What is the purpose of short selling?
- A. Generally speaking, to make a profit.
- Q. To make a profit by what process?

 A. By repurchasing the short sale at a declining price.
- Q. That is, by selling a security that you have not got and gambling on the proposition that you can get it cheaper and deliver the thing that is sold. Is not that it?
- A. That is the usual process—selling when you think the price is too high and repurchasing when you think it has reached the proper level.
 - Q. But is it, or not, the process of selling a thing you have not got?
 - A. It is.

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- Q. And is it, or not, with the idea that it will go lower, or can be depressed down, and bought cheaper and delivered?
 - A. Truly
 - Q. Do I understand that you regard that as legitimate and defensible?
 - A. Do you wish my personal expression of opinion?
 - Q. Yes.
 - A. I think it depends entirely upon circumstances.
- Q. Under what circumstances would you regard that sort of short selling as legitimate and proper?
- A. I should regard it so if there was a panic raging over the country and it was desirable to protect interests which could not be sold. I think it would be a perfectly legitimate thing to do.
- Q. Let us see about that. If there was a panic raging over the country and a man sold stocks short, would not that simply add to the panic?
 - A. It might. Self-preservation is the first law of nature.

- Q. But, as I understand it, if there is a panic raging over the country, you think it is defensible for a man to depress stocks by selling stocks he has not got, with the idea of adding to the panic?
- A. Mr. Untermyer, if a person has property which is absolutely unsaleable and he can, so to speak, protect his position by selling something for which there is a broad market—
 - Q. That he has not got?
 - A. (Continuing). I do not consider it wrong.
- Q. Mr. Sturgis, let us just analyze that, because I do not think I understand you. You do not want to be misunderstood, do you?
 - A. It is not my wish,
- Q. And I do not want you to be misunderstood. Do you mean to say that if there is a panic raging it is a defensible thing for a man, under any circumstances, to sell stock that he has not got, with the idea of getting it back cheaper?
 - A. I do think it is defensible. I certainly think it is defensible.
 - Q. For what purpose does he do that except to try to make money?
 - A. To try to save his credit, perhaps.
- Q. How does he save his credit in a panic by selling stocks that he has not got, with the idea of adding to the panic and getting them cheaper?
- A. Because if he can make a profit on that sale it may repair the loss that he has made on stocks he cannot sell.
- Q. I see. You know that that would simply accentuate the fierceness of the panic, do you not?
 - A. It could not be otherwise.
- Q. Certainly. And his only purpose in doing a thing of that kind in time of panic would be to make money, would it not?
 - A. To protect himself.
 - Q. It would be to make money, would it not?
 - A. Yes; and that would protect him.
- Q. Of course it always protects a man to make money, no matter how he makes it, does it not?
 - A. Yes, sir.
 - Q. And that you think, is justifiable?
 - A. I think under those circumstances it is.
- Q. You do not want to make any further explanation of that proposition, do you?
 - A. I do not.
- Q. Is it any more justifiable for a man to sell short in a panic than in a normal market?
- A. It depends very much upon his financial necessities.
- Q. Do you regard it as justifiable in a normal market for a man to sell a thing he has not got, with the idea of depressing prices in order to buy in the stock at a lower level?
 - A. I think it is a question between a man and his own conscience.
- Q. I am asking for your judgment. You have been many years in the exchange, and you are a careful observer, and I should like to know your judgment.
 - A. I think a great many people deprecate it. Others approve it.
 - Q. Do you approve it?
 - A. You ask me personally?
 - Q. Yes.
 - A. I never sold a share of stock short in my life.
 - A. Then you do not approve of it, do you?
- A. I just happen not to have done it. My private business, if you please, I beg you to omit.
 - Q. I have not asked you your private business.
 - A. Yes; you asked me what I did myself.

- Q. I did not ask you that, sir; I asked you what you thought about it.
- Q. Do you approve of short selling in others?
- A. Under what conditions?
- Q. Under any conditions.
- A. Yes; under some conditions.
- Q. Do you approve of short selling in a normal market?
- A. I will answer that question by saying it is a moral question with the individual himself. It is not up to me to express my opinion upon it.
 - Q. Do you personally approve of short selling in a normal market?
 - A. Not I, personally, no.
- Q. You do not. And is it or not the fact that the bulk of the short selling is done in a normal market?
 - A. I should say no; more often on an excited market.
 - Q. It is done every day, is it not?
 - A. Oh, yes; to some extent.
 - Q. And it is done in large volume, is it not?
 - A. At times.
 - Q. The Stock Exchange does not discourage it, does it?
 - A. The Stock Exchange does not enter into it at all.
 - Q. The Stock Exchange does not discourage short selling, does it?
 - A. The Stock Exchange takes no position in the matter at all.
 - Q, Has the Stock Exchange any rule or regulation against short selling? A. None.
- Q. Why is it not just as simple a matter for them to have a regulation against short selling as to have a regulation against a broker splitting his commissions?
- A. There is no regulation against short selling; that is all I can say to you about it.

The Stock Exchange can of course limit or stop short selling whenever it sees fit to do so. It is doing so now to a limited extent. There are many other ways in which it can be more effectively accomplished:

- 1. It can be limited as provided by the pending Owen Bill by forbidding a broker to lend his customers' stock in satisfaction of short sales. Or,
- 2. It can require each member to deliver at the Stock Exchange Clearing House certificates representing all the stock he has sold and take and pay for all the stock he has purchased the preceding day instead of merely settling differences between total purchases and sales and taking or delivering the balance, as is now done,—in the same way in which the bank clearing house requires every bank to surrender all the checks payable to it and receives all that are paid by it. The present regulations of the Stock Exchange Clearing House facilitate and are intended to facilitate gambling and especially short selling. Without them it could not be conducted on a large scale. Or,
 - 3. The selling broker can be required to disclose the numbers

of the certificates. If he is selling for foreign account there is no difficulty in cabling the numbers of the certificates with the order. Or,

4. The Exchange can simply enact a rule forbidding it and enforce it just as it now enforces the rule for a uniform commission and far more readily, for it is more easy to control.

There is not time to review the argument for or against short selling nor is it germane to the present discussion. It bears, not on the question of whether there should be regulation, but on what shall be the character of such regulation.

I may, however, be permitted to say in passing that the champions of short selling studiously ignore the main argument against

its legitimacy.

They insist that it is a safety valve against undue inflation and depression, in that it tends to check an undue rising and

falling market in a security.

It is said that the short seller sells when in his judgment a stock is too high and is compelled to cover his sale by buying when it has reached what he believes to be its real value. That sounds well in theory. In practice short selling is a dangerous factor in times of depression. It is a direct incentive toward creating and accentuating panics in the security market.

But above and beyond this, it is not in fact to any extent employed, as is claimed, as a test of the value of a given security. and does not in practical operation perform any such useful function, except in rare cases. Speculation is the main feature of the stock market. The bulk of its transactions are in the nature of gambling, the brokers being themselves and for their own account the chief speculators, and the customers who trade through them buying and selling from day to day making up the remaining speculative contingent.

Mr. Sturgis testifies on this subject as follows:

Q. We are speaking of transactions that are made by members of your exchange in the way of short selling. Would not their books show whether or not they were selling short?

A. If the broker is operating for his own account, yes.

Q. And you say from a quarter to a half of the transactions on the exchange are for the broker's own account?

A. We agreed upon a third, I think.

The Commission appointed by Governor (now Mr. Justice) Hughes found:

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It is unquestionable that only a small part of the transactions upon the Exchange is of an investment character. A substantial part may be characterized as virtual gambling.

The patrons of the Exchange may be divided into the following groups:

1. Investors, who personally examine the facts relating to the value of securities or act on the advice of reputable and experienced financiers, and pay in full for what they buy.

2. Manipulators, whose connection with corporations issuing or controlling particular securities enables them under certain circumstances to move prices up or down, and who are thus in some degree protected from dangers encountered by other speculators.

3. Floor traders, who keenly study the markets and the general conditions of business and acquire early information concerning the changes which affect the values of securities. From their familiarity with the technique of dealings on the Exchange, and ability to act in concert with others, and thus manipulate values, they are supposed to have special advantages over other traders.

4. Outside operators having capital, experience, and knowledge of the general conditions of the business. Testimony is clear as to the result which, in the long run, attends their operations; commissions and interest charges constitute a factor always working against them. Since good luck and bad luck alternate in time, the gains only stimulate these men to larger ventures, and they persist in them till a serious or ruinous loss forces them out of the "Street."

5. Inexperienced persons, who act on interested advice, "tips," advertisements in newspapers, or circulars sent by mail, or "take flyers" in absolute ignorance, and with blind confidence in their luck. Almost without exception they eventually lose.

A "short-selling" movement is not ordinarily directed against a particular security on its merits. In order to be successful on a substantial scale it attacks the entire market. The operator sells, without owning, a number of the most active securities on the list without regard to their merits or whether they are intrinsically worth more or less than their then selling price. There is rarely a substantial selling movement that does not attack and depress prices in the active stocks all along the line. The market prices move up and down by sympathy. That, being true, explodes most of the fine-spun theories as to the justification for short selling in fixing and steadying the value of a given security.

Unless I wholly misapprehend the operations of our financial system, the regulation by law of the Stock Exchange is an indispensable condition precedent to the destruction of the control of great financial credits by a few men or to any effective corporate reform in this country. It is by the illegitimate use of the facilities of this, the world's greatest security market, that many of the vast predatory fortunes have been filched from the public. The relation and importance of the Exchange to corporate independence of banking domination are little understood.

We shall accomplish nothing substantial in the direction of the coveted goal of financial emancipation toward which we are striving until this factor is appreciated and dealt with as an essential

factor in the general scheme of reform.

The reasons in favor of federal regulation and control of the Exchange are vastly more weighty than those appertaining to any of the many occupations that are now required to be incorporated and are so regulated and controlled. As before stated, the Exchange is in no sense a private or local enterprise. It is grossly misleading to say, as has been argued by the defenders of its present irresponsible form of association, that it is not engaged in business and that its only function is to provide a meeting place where its members may deal with one another under

prescribed rules.

The Exchange is engaged in business and of a highly important and distinctly national character. It owns the entire stock of the New York Quotation Co., which for a specified rental, supplies members' offices south of Chambers Street, New York City, with a ticker service that registers, impartially and without earmarks, every genuine and manipulated or fictitious transaction that takes place on its floor. For \$100,000 a year, under contract terminable upon one day's notice, it sells these quotations to a subsidiary of the Western Union, the Gold and Stock Telegraph Company, which also maintains a like ticker service. The latter, however, can supply the quotations to such persons only as the Exchange approves and under no circumstances to members' offices south of Chambers Street or to any competing exchange in New York City. The quotations are gathered upon the floor of the Exchange by its employees and transmitted by its own operators to the officers of the New York Quotation Co. and the Gold and Stock Company and thence distributed throughout the United States and by cable to foreign countries, but the Exchange retains the right to determine absolutely who shall and who shall not receive these quotations throughout the length and breadth of the land and all over the globe. There is no other method by which quotations of transactions on the Exchange are obtainable. A new agreement is said to have been recently effected with the Western Union that places these quotations still more completely in the control of the Exchange, if such a thing be possible.

The Exchange is the market place of the entire country and of

foreign countries for securities and the only public market in the United States where money is loaned and borrowed.

The business transacted by its members has no relation to state lines. It comes to them from almost every corner of the civilized world. It is not only nation-wide, but international in scope. Its members maintain private wires to all the principal cities of the United States, and the transactions conducted on this open board are for the account of customers from all parts of the country and from foreign countries.

Its hall-mark as to the genuineness of a certificate of interest in a corporation passes current everywhere, and it is rightly supervised with jealous care and at considerable expense to the corporations concerned.

It undertakes to prescribe the form and conditions of every corporate security in which it authorizes dealings, and its determination is final through its control over the listing of such securities. It reserves the right to enact the minutest details of the business and affairs of the issuing corporation, to impose its will in the matter of the procedure by which such corporation shall declare and pay interest and dividends and in the matter of the transfer agents and registrar and as regards endless other details; all this very properly on the ground that it is performing a public function national in its scope.

It jealously controls the reports of every transaction on its floor, issues and distributes the records of every purchase and sale, or offer of purchase and sale, which it thereby impliedly represents as an honest and genuine transaction. Courts of justice, trustees, financial institutions, tax officials, state superintendents of banks, trust companies, and fire and life insurance companies and other corporations that are subject to supervision in the several states throughout the country, and the comptroller of the currency in fixing the value of securities of national banks, and the public the world over, act on this information. It exacts compensation for the service of listing securities, sells the quotations to interstate and international telegraph companies for large sums of money, and scatters them broadcast through the newspapers, over the telephone and telegraph, but always under its control.

In the face of this array of undisputed facts, this stupendously powerful national and international agency of finance contends that it would not be a reasonable or legitimate exercise of the power of Congress to prevent the use of the mails, telephone,

and telegraph in interstate business as a means of perpetuating frauds upon the public. Congress not only has the unquestioned power—it has become an imperative duty. It is a necessity of modern finance from which there is no escape. It is far more important than the power now exercised by the Post Office Department over letters and prospectuses that are circulated through the mails, under which there have of recent years been so many wholesome convictions for fraudulent use of the mails.

Regulation is not only needed as a preventive of fraud. It will accomplish still greater results as a consecutive measure. Great and much needed reforms in the organization and methods of our corporations may be legitimately worked out through the power wielded by the Stock Exchange over the listing of securities. Much of the confusion and many of the defects in corporate regulation due to the diversity of state laws and the bidding of the states against one another in laxity of administration in order to attract corporations within their borders may be corrected, and uniformity of methods introduced, through the listing department of the Exchange.

Thus complete publicity as to all the affairs of a corporation may be uniformly enforced. It may and should require as a condition of listing a security that all the intermediate profits and commissions of bankers, brokers, and middlemen shall be fully disclosed, thus throwing about the investor the protection afforded by the Companies Acts of Great Britain and of other civilized countries. Every new security should be required to be publicly issued and offered to the public through the publication of a prospectus, so as to eliminate the secret profits of the middleman as far as possible. It is the only way to create confidence in and to popularize investments in corporate securities.

Detailed annual statements should be exacted from all corporations whose securities are listed, disclosing all payments made or profits or emoluments received, directly or indirectly, by officers, directors, bankers and brokers from the corporation, so that every security holder may know whether and to what extent his company

is being exploited.

The scandalous practices of officers and directors in speculating upon inside and advance information on the action of their corporations may be curtailed, if not stopped, by requiring that the officers shall make full disclosures of all their transactions in buying and selling securities of their companies. The act in-

corporating the exchanges should provide that all statements required to be made by corporations shall be under oath and that false swearing shall constitute perjury. At present they are extra-judicial.

In short, the opportunities of the Exchange as an agency of corporate reform are almost endless, provided its own practices can be performed so as to entitle it to exercise these broad powers. Instead of the investment business of the country abandoning the Exchange as is now and has been to an extent the case for some time past, it will become necessary to the reputation and saleability of a security that it should be listed by reason of the protection thereby afforded the investor. The general public, which has grown to look upon the Exchange with distrust because of the practices that have been tolerated in the past, will be given new confidence in it when it is under legal supervision.

The argument as to the effect of this legislation in enlarging the usefulness of the Exchange has been referred to as an admission that the ultimate purpose is to secure publicity and uniformity in corporate transactions and general corporate reform through the use of the Post Office Department. It is nothing of the kind, although it would not be a misfortune if it should indirectly lead to uniformity in requiring publicity of the affairs of corporations and to restricting the bidding of the states against one another in laxity of administration. If it incidentally reduces the incentives for the organization of "carpet-bag" and "wild-cat" corporations it will hardly be objectionable on that ground if it is otherwise a legitimate exercise of power.

It is as essential to require that the public market, whose quotations are to be carried by the mails, shall be restricted to the listing of securities that conform to given requirements of publicity of their affairs as it is that the quotations of those securities shall represent only actual and not fictitious or manipulated transactions. This is necessary if the use of the mails to facilitate fraud is to be prevented.

There is no ulterior purpose in the first requirement, even though it may serve another useful purpose. The intended protection of the public cannot be secured without compliance with both requirements.

If there has been any argument advanced to justify our permitting this unincorporated association to determine, without public supervision, when and under what conditions these great security

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markets shall be opened and closed, it has not been brought to my attention. The action thus taken is of the most distinctive public concern. It directly affects the fortunes of every business and financial institution in the country. Why should we tolerate its being longer subject to the whims or the judgment, good or bad, of a few interested men who are responsible to no one for its farreaching results?

Incorporation is not, however, the only means of regulation. It has been put forward as the most practicable means and as rendering regulation effective with the least possible interference with the liberty of the members of the Exchange.

The suggestion that the members be required to keep separate books containing entries of transactions on the Stock Exchange and that these books be subject to inspection by public authority for the purpose of discovering manipulation and other violations of law, has met with a great outcry from the gentlemen whose transactions are thus sought to be subjected to supervision. They entirely overlook the fact that there are innumerable occupations. only remotely affecting the interests of the public, in which such inspection is provided for by state and federal authority. Manipulation can no more be discovered without such power of supervision than could the practice of rebates have been repressed and punished without access by the Interstate Commerce Commission to the books of the railroads. The same is in a degree true of the violations of the Anti-Trust Law. Only in isolated instances have they heretofore been discoverable, but with the aid of the Trade Commission Bill it will be possible to reach the secret agreements and arrangements in restraint of trade that have thus far eluded detection.

With few exceptions the members of the Exchange are mere puppets of the big operators and financiers with inside information in the practice of manipulation. They can be reached only through the brokers' books.

It was established before the Pujo Committee that many of these accounts are kept on the books of the brokers by numbers and that the names of the principals were unknown to those in charge of the accounts. In that way the identity of the men who were "rigging the markets" was effectively hidden. One of the first acts of the regulating body would be to put an end to such practices and to require that the books of the brokers should state the facts, through which the operations of their principals would be discoverable.

Certain objections have been urged against the regulation of the Exchange by public authority, which should now be considered.

Mr. Van Antwerp has been the chief spokesman in voicing these objections. They were summarized by him a few weeks

ago from his press bureau as follows:

1. That the subject of incorporating the Exchange was considered by the New York State Senate in 1913 and there overwhelmingly rejected. The fact is that the bill that was then presented was opposed by me before the Senate Committee as a mere subterfuge and as intended to defeat effective regulation by applying a quack remedy. As bearing on the conclusiveness of this "argument" it may not be out of place to remark here parenthetically that the body which defeated the bill is the same legislative body that, by an overwhelming vote, acquitted one of its members (Senator Stilwell) of the charge of bribery on identically the same evidence on which he was a few weeks later convicted in a criminal court, and for which he is now serving a term in the state prison.

2. It is next said that there is no public demand for this reform. In evidence of that fact Mr. Van Antwerp asserts that at the hearing before the United States Senate Committee on the pending Owen Bill for the enforced incorporation and regulation of the Exchange: "Thirty-six witnesses appeared against the bill and only one in favor of it—the latter the lawyer who drew the bill."

The reference to "the lawyer who drew the bill" is intended for me; but Mr. Van Antwerp omits to state that it was prepared by me as counsel for the House Committee on Banking and Currency; that it was revised by the Committee; that it was recommended by it; and that the same bill has been introduced by Senator Owen in the Senate and by Congressman Henry, the chairman of the Committee on Rules of the House (who is not a member of the House Committee on Banking and Currency); and that this bill is now pending in both Houses.

The facts are further:

- (1) That there were in all eighteen and not thirty-six witnesses heard before the Committee, as appears from the official record of the proceedings.
- (2) That none of them were under oath or subject to cross-examination.
 - (3) That three of the eighteen in favor of the bill, and that

of the fourteen who argued against the bill in its then form a number of them directed their arguments to the particular phraseology of certain parts of the bill and that of this number seven were presidents, ex-presidents, governors or members of the Stock Exchange, whose abuses were sought to be corrected by the bill: one was the general counsel for the New York Stock Exchange and another the general counsel for the Consolidated Stock Exchange. They were there in the capacity of counsel and made oral arguments and filed briefs and are by reason of that factand that alone-included in Mr. Van Antwerp's "list of witnesses." Two were the president and counsel for the Boston Chamber of Commerce, both of whom admitted the wisdom and necessity for federal regulation and presented a proposed bill embodying their views of the form of regulation they deemed desirable. One was a merchant who had been a member of the Hughes Commission and whose testimony was directed largely to explaining and justifying the virtues of watered stock; and the three others were financial experts, including Professor Emery.

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- (4) That the bill which is described by Mr. Van Antwerp as having "only one in favor of it—the lawyer who drew the bill"—is the identical bill that was favorably reported by the Pujo Committee of the House of Representatives in February, 1913, after a long investigation in which many witnesses were examined and cross-examined under oath, with the recommendation of ten of the eleven members of that Committee, including all of the seven Democratic members and three out of the four Republicans.
- (5) That it is the same bill that has received the unqualified approval of five of the seven Democratic members of the present Senate Committee on Banking and Currency.

Inasmuch as it is nobody's particular business except that of the general public, which has no spokesman, to press this reform, whilst it is the particular business of the Stock Exchange and its officers and specially employed counsel to defeat every attempt to bring the Exchange under legal regulation, the consensus of independent opinion in favor of regulation as represented in the committees of Congress would hardly seem to justify the implication that there is no public sentiment in favor of this reform.

3. The most surprising and, if I may say so, the most misleading of the arguments urged against regulation, is to the effect (1) that if the Exchange were now incorporated or under federal regulation its action during the recent crisis arising out of the war in prohibiting its members from trading privately in stocks that were not listed on the Exchange, and with which the latter has no more concern than a stranger and with respect to which it has legitimately no more power to control its members than is possessed by a stranger, would have been rendered impossible; and (2) that such action would in that event have been preventable through injunctions issued by the courts against the exercise of its unauthorized restraint upon the free action of its members in matters not the concern of the Exchange.

There is no means of knowing on what this fanciful assertion is based. It has no legal warrant so far as can be ascertained. The fact that the Exchange has been able to enforce this unauthorized action against its members does, however, shed a flood of light upon the extent of the unlawful domination of the Exchange and the despotism that it is able to wield over its members with respect to their dealings in securities that are not listed or dealt in on the Exchange and with which the latter has no concern.

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I do not criticise the general acquiescence by the members in the action it has taken, however arbitrary it may have been. It was an act of self-preservation and would probably have been agreed to for that reason whether the Exchange was or was not subject to regulation by the authorities. But there is no reason why that act or any other act of a body of this character, exercising public functions, should not be subject to the scrutiny of the courts if any member felt that his legal rights had been invaded, without subjecting him to arbitrary expulsion for daring to invoke the law of the land. The suggestion that this, the most important link in our financial structure, should be set apart and permitted to be a law unto itself, lest the courts might otherwise interfere to review its action and redress grievances, is inadmissible in any community that professes to be governed by law.

The Governors of the Stock Exchange are obsessed with the lawless notion that the great peril against which they must jeal-ously guard their institutions is the possibility of reserving to a member the right of appeal to the courts from their judgments—however unrighteous and despotic they may be. Unfortunately the decisions of the courts, based upon their present peculiarly

irresponsible form of organization, have encouraged them to believe that they are a law unto themselves. It is largely because of this current of judicial authority that the law requires change,

The Exchange dreads regulation because, as it naïvely admits, regulation would interfere with that despotism which they call their "disciplinary" powers that are not subject to review, as they should be. Why should not a member have the right to a determination by a court of whether his engaging in a private transaction for the purchase or sale of stock not listed on the Exchange and with which the latter has nothing to do, either for his own account of for others, is within his rights as a citizen, without being summarily expelled for his temerity in daring to appeal to a court of justice?

I am not discussing the wisdom of this particular regulation under the exceptional circumstances under which it was put into effect, nor do I believe that it would have been questioned, whatever may have been the right of members to secure a judicial review. A rule that might be wise and justifiable under certain conditions may be intolerable under others. If it is right we cannot assume that the courts will overturn it; if it is wrong the

power should be lodged somewhere to correct it.

I am objecting to the principle involved in the arbitrary contention that the Exchange must be permitted to remain unregulated so that its acts, however ill-considered or oppressive, shall not in any event be subject to judicial review. It is a plea for mob law. No more insidious form of anarchy was ever preached.

We are finally told that as the result of the foolish, muck-raking agitation for regulation which the Exchange has never tired of denouncing, there was enacted in 1913 a law against manipulation and that anyway none has been practiced during the past few weeks of stagnant business since the Exchange reopened. Granted, though I doubt it. In the absence of regulation there is no way of proving or disproving this statement, and as before stated the law is a humbug and it would in the absence of regulation be a dead letter in any event.

The Exchange has openly and heatedly defended the practice so long and so recently that it does not seem reasonable that it would now go out of its way to end it, especially as it has been an important source of profit to so many of its members, who do not

yet consider it morally wrong.

If this argument is sound, we should repeal all supervisory and

visitorial powers over our banks, trust companies, railroads, life insurance companies, packing houses, factories, and other businesses having a quasi-public relation, for have we not stringent penal laws against their unlawful doings and those of their officers?

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Officers of corporations may then with impunity steal from their banks, packing-houses may be in a state of filth breeding disease, all health regulations and safety appliances in factories may be disregarded and every penal law affecting their safety defeated, since there would be no way of ascertaining the extent of the violations.

The superintendents of banks and insurance may now overhaul all the accounts and transactions of the institutions under their charge and may examine the officers and directors of the corporations under oath as to all matters pertaining to the corporation and thus discover violations of law. The Exchange indignantly persists that to subject its members to like visitation involves an imputation upon their honor and they resent it with as much heat as if there were no precedent and no necessity for action.

In the absence of these powers of visitation and regulation over banks, life insurance companies and other businesses, we would be in the same predicament as to them that the Exchange claims we now are with respect to it—we might have ample repressive and punitive laws to reach illicit practices, when discovered, but no means of discovering them, and so we may as well have no laws whatever.

Lastly, it is said that incorporation or regulation of the Exchange would necessarily involve the right of the court to review the discipline of the members, which must at all costs be prevented, since it would mean the granting of injunctions to stay the action of the Exchange pending review and this would be destructive of effective control over the members. Summary action is claimed to be necessary to enforce discipline.

It by no means follows that regulation would involve undue interference with the discipline of the members. That would rest in the judgment of the public body having the regulation in charge. All would depend on the form of the legislation. The Exchange has no right to assume that anything would be done to interfere with its efficiency. This is believed to be a pretext. Its real fears are: (1) that the limitation upon its membership, its rigidly enforced rule requiring the charging of uniform commissions, its at present unreviewable discipline of members for action involving no moral delinquency, its unwarranted control over public quotations

of securities, and its despotic rule over the smaller Exchanges would be ended; and (2) that its transactions, involving the manipulation of prices, would come under the ban of the law and be discoverable and punishable. In this it is entirely right. That and the control over the opening and closing of the Exchange, and the conditions under which securities shall be listed and quotations spread over the world, are among the principal grounds for demanding regulation.

The Exchange rightly scents the danger to its illicit transactions and lawless arrogation of power from regulation, hence the desperate struggle it is waging against the inevitable.

I believe it fails, however, to appreciate the broader aspects of this important public question and the eventual gain to it in increased stability and revived public confidence.

In this connection I take the liberty of repeating the statement made by me before the United States Senate Committee:

I am convinced that the time will come, and before long, after regulation has been enforced, when those who are now bitterly assailing the champions of this legislation in the vain hope of thereby diverting the issue will find that it has marked the dawn of a new era of usefulness and prosperity for them, and that the Exchange will feel grateful to those who have pointed the way.

SPECULATION ON THE STOCK EXCHANGES AND PUBLIC REGULATION OF THE EXCHANGES

By Henry C. Emery Yale University

The old Farmer's Almanac used to carry at stated intervals the legend, "About this time expect rain." In the same way our almanac of industrial legislation might carry at stated intervals the legend, "About this time expect legislation in control of speculation." Demands for such legislation seem to come at intervals without any particular regularity and, so far as I can see, with no more particular reason at the special time than the reasons for the predictions in the Farmer's Almanac.

I am particularly interested in considering this question at the present time since the first article I ever wrote on an economic subject appeared in the Political Science Quarterly exactly twenty years ago and dealt with the subject of legislation against futures in the grain market, a subject which at that time was being very actively discussed in Congress. This is not to indicate that I have anything as interesting or romantic to relate in this brief paper as would be indicated by the title of Dumas' famous novel, Twenty Years After. It may be of interest, however, to this Association to know that after twenty years I still take much the same position which I took at that time. By many I am doubtless considered for this reason either a hopeless "stand-patter" or a mere professional defender of the speculative exchanges. As we grow older, however, I think we realize that the desire promptly to alter by legislation every economic institution which does not seem ideally perfect is largely characteristic of young men on the one hand and of professional legislators on the other.

During this period of twenty years certain very important experiments have been made in the way of regulation in some other countries, notably in Germany. As is well known, a most elaborate investigation was made into the subject of both stock and produce speculation by the commission which reported in 1896 and an act was passed which went into effect at the beginning of 1897. Ten years afterwards this legislation, so far as the Stock Exchange is concerned, was repealed and in the report on the act of repeal it was clearly stated by the government that the experience of ten years had shown that this well-meant

legislation had had exactly the contrary results of what had been intended.

There have also, I think, been some decided changes in this country. There have been some heated investigations by Congressional committees, there has been agitation at Albany, and there has been the well-known investigation of a much more unimpassioned nature by the Hughes Commission, of which our distinguished fellow member, Horace White, was chairman. The striking thing, to my mind, about this last investigation was that the commission had the courage of its convictions to face public criticism by not recommending any radical legislation on the part of the state. In connection with all this—whether as a result of it or in spite of it—there has been also, I think, a change of feeling on the part of responsible members of the Stock Exchange.

As a very young man I used to enjoy fulminating against the Stock Exchange at the same time that I defended it. I used to enjoy asserting, with all the air of one in authority, who could carry out his threats, that if the Stock Exchange did not take thought of itself and did not do some housecleaning on its own account it must expect radical and harmful regulation on the part of public authorities. I believe that there has really been a marked change in this direction; partly in the way of actual new rules adopted, but even more in a new temper on the part of the governing authorities towards certain practices formerly tolerated. It will be said by many that this is simply the result of the authorities of the Stock Exchange having been well scared by proposed legislation. This may be so. I am inclined to give them credit, however, for the natural growth of a new spirit in the way of recognizing that if the Stock Exchange does perform a public function its affairs can no longer be looked upon as concerning nobody but themselves, nor an investigation into its methods as in any way an impertinence. I think I speak with knowledge of the men and the situation when I say that their later efforts are not merely the efforts of criminals, conscious of their own guilt, to defend themselves, but that they are genuine efforts on the part of the enlightened and controlling element of the Stock Exchange to justify themselves as an economic institution; to really understand their own functions better; and even if necessary to reform themselves in the light of this better understanding.

If in saying this I appear as advocatus diaboli, I at least ask

that no one will merely assume this without an actual investigation of the facts to which I have referred; and, furthermore, that he will not do so without divesting his mind of certain fallacies regarding the Stock Exchange which are prevalent, not only in many of the efforts to regulate stock speculation by law, but also

among the writings of professional economists.

Many of the old fallacies with which I tried to deal twenty years ago still prevail in the public mind,-fallacies regarding the way in which prices are formed, the real nature of supply and demand, and the extent to which the supply and demand are faithfully reflected in the open markets of our organized exchanges. But there is no time to refer to these, even if it were necessary. For this particular occasion it is more important to consider certain other fallacies which have appeared very prominently in recent years. The one I have particularly in mind is a very general fallacy as to what an exchange really is. This fallacy is to be found everywhere throughout the recent hearings before the Senate Committee on Banking and Currency and also in such a work as the recent monograph published in the Columbia Studies by Mr. A. A. Osborne. May I be pardoned again for making a personal reference in this case? Frankly, I shall refer more frequently to Mr. Osborne's monograph than its intrinsic value really warrants. It happens, however, that this is his thesis for the doctor's degree; that it appears in the same series in which my own doctor's dissertation appeared; that it appears just twenty years after; and that it comes to the conclusion that the theories which I ventured to put out at the earlier date, on the basis of a general study, have been disproved by a more intensive study of the facts. Perhaps I am a little hypersensitive, but I feared the casual reader might assume, because of these new conclusions being presented in the same series, that either Columbia University had taken a radically new attitude or economists in general had changed their position. I should not like any such idea to be accepted without vigorous protest on my part. It is not necessary here to consider whether or not a study of only thirty-one months of speculative activity was an adequate basis for the conclusions of this monograph. What is more important is that the work in question seems to me to reflect on almost every page exactly the same fundamental fallacy which has frequently made it so hard for legislators to understand what the problem really is.

This fallacy consists in confusing the great body of men and women who buy and sell securities, whether for investment or for speculative purposes, with the members of the organized Stock Exchange of New York. Sometimes, indeed, it would seem as if the public had confused this vast body of citizens in general, including both the conservative little investor and the great plunger. with so small a body as the governing board of the New York Stock Exchange. It is, of course, easy to use somewhat carelessly phrases such as "the function of the Stock Exchange" when what is really meant is "the function of speculation." I probably have been guilty of such careless usage myself. You can see, nevertheless, how dangerous such usage is. When the economist says that "the function of speculation is to direct the course of investment" he does not mean to say "it is the function of the Board of Governors of the New York Stock Exchange to direct the course of investment." The two are fundamentally different, and yet they are constantly being confused in the public mind. When, without careful analysis, we refer easily to the function of the Stock Exchange, what we really mean is not the function of that body as an organized group of individuals with certain officials, but the function of the New York Stock Exchange as an open market where buying and selling is carried on at the orders of a great outside public. Not to recognize this difference distinctly is as fatal to clear understanding as it would be to confuse a general statement regarding "the function of commerce" with a statement regarding "the purpose or duties of the Chamber of Commerce of the United States."

For instance, Mr. Osborne says (on page 13) that the two functions most generally ascribed by economists to a large stock exchange and preëminently to that of New York are: (1) directing the flow of capital into investments; (2) "discounting" future events. His monograph is a study of the question as to whether or not the New York Stock Exchange as an organization has done this and he comes to the conclusion that it has not. But why should it do so? What he has given as the supposed defense of the New York Stock Exchange is in reality the defense which economists have given of speculation,—that is, of an unrestrained body of speculators, who, it is true, deal largely through the New York Stock Exchange, but have nothing whatsoever to do with its membership or its organization.

It ought not to be necessary to define again in this place what

we mean by speculation. If so, it would be necessary also to define what we mean by "trade" and "commerce." It will be agreed, I suppose, that trade and commerce, the functions of which have been discussed by economists for many years, do not perform these functions with perfection or complete satisfaction. Primarily, the merchant engaged in "trade" is he who buys in one market and sells in another, whether the two markets be close together or far remote geographically. The speculator, on the other hand, is he who differentiates himself from the trader and contents himself with buying and selling in the same market with an effort to make money out of the fluctuations in price in that single market.

The true way, then, of expressing the argument is that speculation per se can be justified because of certain effects. By speculation per se I mean to mark exactly this differentiation between the speculator and the trader. The effects of such general speculation as generally accepted are already cited from Mr. Osborn's monograph; first, directing the flow of capital into investments; second, discounting future events. These two coming to much the same thing, I should still add a third, namely, the fact that a free speculative market provides a class always ready to assume the continuous risks of changes in value. In a certain passage (p. 171) Mr. Osborne seems to discard this idea, apparently quoting from something I have said. None the less I am convinced that from the investor's point of view the chances of getting rid of a security at some definite price, fixed by the speculative market, is of the utmost importance. I shall refer to this again later in connection with the closing of the Stock Exchange in the last few months.

You will see, then, that what I am trying to say is that it is essential to distinguish between our defense of speculation in general and our defense of any particular institution such as the New York Stock Exchange. The Exchange is to be defended solely as a convenience for making most effective the operation of that general speculation to which I refer. Of course, if one takes the attitude that all speculation is bad, and can be stopped and ought to be stopped, then it is easy to say, not so much that the Exchange should be regulated, but that it should be abolished. It certainly ought to be clear to everybody at the present time that stock exchanges arise as a result of speculation and the necessity among brokers of regulating their mutual relations and their relations to their clients, rather than that speculation arises as a result of stock exchanges. The problem of "stock-

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jobbing" aroused attention long before there were any such things as stock exchanges. One of the earliest works of interest on this subject was published in 1719, called The Anatomy of Exchange Alley. Exchange Alley was simply a street where dealers in securities met, and somebody thought it worth while to analyze its "anatomy" before dealing in securities of this nature had become so important that a stock exchange was formed. I refer to this simply to emphasize the fact that it is necessary to distinguish between a judgment of speculation in general and a judgment of any exchange, whether the New York Stock Exchange or any other. We all know that besides the Stock Exchange we have the "Curb Market." During the closing of the Stock Exchange and the Curb Market we have had what is known as the "gutter market." It is quite easy to exaggerate the importance of any of these side issues in the way of speculative markets, but the fact that these arise so readily proves, at least, that our problem regarding stock exchange regulation is not the problem of whether or not speculation is desirable. Speculation exists and will continue to exist. The problem is whether the Stock Exchange as at present organized is, on the whole, the most convenient method of meeting this necessity of trade.

The trouble is, people who do not understand about it exaggerate so much the importance of the Stock Exchange,-or at least of its members. After all, they are only a body of brokers. Some of them, of course, do speculate on the side, but primarily they exist as a body of agents for the general public who, right or wrong, like to speculate in securities. They are really much more harmless men than many of their antagonists suppose; not because they desire so much to be harmless as because they are plain, ordinary agents, carrying out orders given to them by others. Very likely they would enjoy doing the terrible things which they are supposed to do and which they are charged with doing by Mr. Untermyer and others. It would certainly be a pleasure-even if an immoral pleasureto be quite as devilishly astute and conscienceless as they are supposed to be. As a matter of fact, they cannot do these things if they want to. In fact, they might well say to us in the words of Kipling,

We aren't no thin red 'eroes, nor we aren't no blackguards too, But single men in barricks, most remarkable like you; 'An if sometimes our conduck isn't all your fancy paints, Why, single men in barricks don't grow into plaster saints.

After all, is not the main question whether or not we believe in a free market for securities? And if this is the real question .that is, if we believe in general in a speculative class and the advantages of such a class,-does it not follow that the only question is whether or not the New York Stock Exchange by its organization provides the best kind of free market? Whether its rules are such that they give you and me and thousands of others the freest right to buy and sell according to our estimates of values and furnish the best facilities for the settling of contracts? To quote Mr. Osborne again, he says, for instance (on page 170), speaking of the New York Stock Exchange in connection with the problem of how far it has proved an effective agency in the direction of the flow of capital, "Certainly in the period studied its efficient performance of this function, we concluded, was not in evidence at all, except in so far as it provided a broad market wherein any investor might buy or sell on his own initiative."

My only reply to this statement is to ask, What else in all reason can a stock exchange be expected to do? Especially is such a reply warranted in view of the fact that somewhere else the same author suggests in a complaining tone that the New York Stock Exchange has been satisfied merely to uphold the highest standard of honor among its members.

Now, it is quite fair to argue that speculation does more harm than good. Consequently, it is fair to argue that, since an organized exchange gives an orderly form to speculation and, furthermore, facilitates the making of speculative contracts, therefore a fortiori the exchange is something to be suppressed. It is also a perfectly fair argument, as made by the socialists, that competitive commerce in general does more harm than good. It has also been held by thinkers of the socialistic school that banks in general and our whole credit system do more harm than good. If one wishes to adopt a proposition of this kind, one does so on quite intelligible grounds. Only, if we assume for the moment that "competitive commerce" is on the whole a good thing for society, we do not make the mistake of attributing its incidental evils to existing "chambers of commerce."

So far I have simply been trying to point out what seems a very simple proposition; namely, that we must not confuse the general body of speculators in the country with a particular organization of brokers, who act simply as their agents. If we

believe that there should be no speculation,—that is, no buying and selling according to possible changes in value,—then we should strike at the actual source of the evil, provided it can be reached at all. At least let us not confuse a mere agency with

the principal parties concerned.

From this fallacy follow two others. First, a fallacy which has appeared continuously in the hearings before Congressional committees; namely, that because certain people protest against particular government regulations which have been suggested. they consequently claim that the Stock Exchange is "above all law." This was the kind of question that was continuously put to me, for instance, in Washington before the Senate Committee to which I have referred. Whenever I suggested that I believed that the provisions of the specific bill would do more harm than good, promptly some senator said, "Do you think these brokers are so perfect that they should be exempted from the ordinary laws of the country?" Or else such a question as this: "If we can regulate railroads, banks, and corporations, do you mean to say that there is something so sacred about the Stock Exchange that we cannot also regulate its affairs?" Obviously all such questions as these were beyond the mark. Just how far, as a matter of fact, Congress can constitutionally regulate the affairs of the Stock Exchange as easily as the affairs of railroads is a matter for the constitutional lawyer. The proposed bill itself showed the difficulties which the committee felt in that they could only reach the Stock Exchange through the right of the federal government to control the mails and, therefore, they proposed to put the stock exchanges of the country under the control of the Postmaster General. But questions of this kind are not of importance for us. Whether Congress has the constitutional right or not, there can be no question that the State of New York has the right to pass such laws as it sees fit regarding stock exchanges within its own boundaries. But here is the very point.

New York already has a great many laws, all of which apply to the members of the New York Stock Exchange as well as anybody else. There is no question of the exchanges or their members being outside the laws. They are as much subject to the laws of the state as any other set of men. An early writer warned the "stock-jobbers" of London that "the King's writ runs in Capel Court as well as elsewhere." Of course the King's writ

ran in Capel Court. It always has and always will. And a New York writ runs in the supposedly sacred precincts of the Stock Exchange as effectively as elsewhere. Not only are there important statutes against fraud, against obtaining money under false pretenses, against conspiracies of one kind and another, but there are also a number of specific statutes regarding corners, "manipulation," and the like, aimed directly at the speculative market. Every member of the Stock Exchange is just as much subject to these statutes as is his client, whether the client be a small investor in a country town or a dominating financier around the corner.

A second fallacy which connects itself with the one which seems to me most important, is the fallacy that it is the duty of the Exchange to guide investors. Mr. Osborne's monograph, for instance, seems to be full of this idea. The same is true regarding most of the views expressed in Congressional hearings at Washington. Mr. Osborne says (p. 14): "It has never been shown either a priori or inductively that organized speculation in itself is the faculty of guiding investment. Unless the customs and formal rules of a particular stock exchange are established with this definite aim in view, it has never appeared that speculators will find it to their individual interest to direct or to guide investment." But where was there ever a so-called "defender of the stock exchange" who pretended for a moment that either the speculators or the brokers found it to their individual interests to carry out a function attributed to them by the economist? The very point of the whole argument has been that men who are simply following their own selfish interests with the idea of getting the most they can out of fluctuations in the market of necessity perform a certain service to the public, in the way of indicating values which it was well for the public to know. Mr. Osborne returns to this theme again and again. He insists that the New York Stock Exchange has not really assisted in directing the "flow of capital into investment" because they took no interest in this and were always so inert regarding investment orders. I know of no economist of standing who ever ventured to hold that either individual brokers on the Exchange or the governing board of the Exchange should attempt consciously to direct investment in any such way.

These conceptions all seem to me to be based upon fallacies. Once more to quote Mr. Osborne. He says (p. 150): "The

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authorities of the Stock Exchange did not exert the despotic power which they have over the activities of the individual members, in seeking to adjust the volume of speculative operations to the strength of the effective investors' demand."

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Now, over whom do the "authorities of the Stock Exchange" venture to assert this "despotic power"? Doubtless they have a despotic power in a certain sense over their own members which, given a good Board of Governors, is one strong argument against incorporation. But do they exert this despotic power over us? Cannot you and I deal on the Stock Exchange as we see fit? Is it not obvious that these brokers are, after all, merely our agents; that their powers are very much limited; that, say what one may about "insiders" and "manipulation," it is the public which makes prices? It is you and I who determine in the end what we think the value of any security to be; and who by our purchases and sales establish the price for that security which is registered on the Stock Exchange.

Once more our author refers to what he calls the fallacy of supposing that prices on the Stock Exchange are a barometer of future events. I do not propose here to make any quarrel on the question as to whether or not stock exchange prices really represent a correct and sensible guess as to what is going to happen in the future. The main point is that prices, whether proved right or wrong in the future, do represent with absolute exactness what we all think now.

As a substitute for the figure of the barometer, I suggest the figure of the weather vane as showing what prices on the Stock Exchange mean. It is obvious that we can easily be misled by looking at a weather vane. There is no certainty that the wind will blow indefinitely in that direction. We cannot plan either all of our planting of crops or all of our picnics in relation to the indication of the moment. The vane may change at any time. But the vane does show how the wind is blowing at a specific instant. It seems to me that the fallacy of many people who wish to change methods that provide for the smooth working of a free and open market for securities is the fallacy of one who thinks he can change the wind by interfering with the weather vane. He sees the vane pointing in a certain direction which is disappointing to him because of plans which he has made. He thinks that he can make the wind blow in a direction which is more suitable to his plans, not by changing the wind, but by changing somehow the weather vane, and therefore he proposes to turn it in a way he likes and then put sand in it to prevent its veering with changes in the atmosphere.

I consider this figure to be entirely justified, especially in view of the idea which has been broached that the Stock Exchange has not performed its function because the "volume of speculation" and the "investment demand" do not necessarily go hand in hand. There have been periods when the amount of speculation has entirely outrun a genuine investment demand. But what does this mean? It means nothing more than that you and I-in other words, the public at large-are sometimes more in a speculative mood and at other times more in an investment mood. I cannot see the slightest reason why the two should go together. Here I might use the figure of the rain-gauge to illustrate the degree of speculative temperament in the public as shown by exchange transactions. Sometimes there is more rain than is good for the crops; sometimes there is less; sometimes the rainfall seems to be exactly what is needed. So is the relation between speculation and investment. Sometimes the public is in a speculative mood, sometimes it is more in an investing mood. To blame a body of agents who are simply carrying out transactions for the public because there is not a nice adjustment between speculation and investment seems to me as absurd as to blame a rain-gauge because it does not always show just the amount of rain which will be most desirable for the crops.

Now, it has been suggested by such an astute veteran as Mr. Untermyer that there ought to be some right to examine the books of brokers in order to see how far manipulation is going on. On the other hand, it has been suggested by such a disinterested young scientist as Mr. Osborne that it would be very desirable if brokers were forced to make reports to the governing body of the Exchange as to the relative extent of investment and speculative orders. There are two things to be said regarding suggestions of this kind.

In the first place it ought to be recognized that half the time the broker does not know which orders are speculative and which are for investment purposes. Not only that, the purchaser himself may suddenly shift his ground; that is, what he bought today for speculative purposes, intending to sell out promptly, he may decide to hold as a wise investment. *Per contra*, he may with the best motives in the world make an investment today

and change his mind tomorrow morning, in which case his transaction would appear on the books on the face of it as a speculative transaction. The impossibility of the broker determining in any way that would do any good to the public how far his orders are speculative and how far they are for conservative investment could be illustrated at great length. But it is not necessary to carry this out further here because, even if the broker or the investigator could always tell accurately whether a given order was for speculative or investment purposes, it is thoroughly undesirable that the Stock Exchange, through its governing board or through any particular committee, should attempt to publish for the benefit of the public anything which seems to indicate which stocks are best and how prices are likely to move.

It has been suggested that a government commission should be appointed to pass upon securities and to make reports of this Such a proposition is very dangerous. One thing is certain,-that the investor must make up his mind for himself. The function of the investor is of the utmost importance. In one sense he is performing a solemn duty in picking out that stock which he sincerely believes will give him the best return with a given degree of security, because he is thereby directing capital into its most profitable uses. In doing this, however, he is assisted in large measure by the existence of a free and continuous market in which both investors and speculators take part.' If the speculative element were removed the market would, however, not be continuous, since the buying and selling for investment purposes alone is likely to be sporadic. Values in the long run, then, and therefore the social use of capital, are determined both by those who wish to make a speculative turn out of price fluctuations and by the great mass of selfish, but shrewd and conscientious investors, who are trying to do the best with what they have. To substitute either any government agency or any action by the organized Stock Exchange in the way of attempting to solve this problem for the individual in such a way that he will feel that he can waive his own judgment in the face of what has been told him, is a proposition of the utmost danger.

It has never been maintained by a serious student of the question that the "discounting of the future" with which speculation has been credited is in any way perfect. No one has ever supposed that serious mistakes must not inevitably occur. Who could have foretold, for instance, years ago what would happen either to the policy of the New York, New Haven, and Hartford Railroad or to the price of its stock? All I insist on is that it is far safer to leave problems of this kind to the study and foresight of the individual investor or speculator than to turn them over either to the governing board of the Stock Exchange or to any agency of the federal or state governments.

Space does not permit taking up in detail many of the suggestions which have been made for government control. A popular defense in Washington of the bill proposed about a year ago was that injury to investors could be prevented by making sure that new issues of securities represented actual values for investment purposes. As a number of senators expressed it, it was merely the application of the pure food law to securities. The phrase sounds good and it may be desirable, either by federal or state legislation, to do something in the way of making more stringent the conditions under which new companies are organized and their securities offered to the public. For instance, it has been suggested by some that the English Companies Act ought to be adopted universally in this country. The point, however, is that the English Companies Act is an act which applies to all issues, whether they are made through the stock exchange or not. The fallacy of the proposed bill was that it aimed to force certain rigid requirements regarding new issues upon the Stock Exchange through the control of the Postmaster General without in any way touching the vast number of outside securities. It would not reach in any way securities not listed on the Exchange and its effect would probably be just the reverse of that intended. There are many kinds of company shares being sold to the public today which never could get listed on the New York Stock Exchange under its present rules. Sometimes I think this is a bad arrangement. There is no place where a fraudulent issue will be so quickly detected as on the Exchange itself. But it is entirely proper for the authorities of the Exchange to make as stringent rules as they like regarding the requirements in the matter of company prospectuses. For the government, however, to attempt to discriminate between listed securities and others is likely to have just the opposite effect from that intended; namely, it would work in the direction of keeping some issues from the Exchange list which ought to be there for the double purpose of exposing them if they are illusory or fraudulent or affording them a free market if they offer proper opportunities for investment.

In all this you may say that I am talking of ideal conditions and disregard the "manipulations" which are rife on the Exchange. Again, much of interest could be said regarding either the general subject of manipulation or such specific instances as have been popularly supposed to illustrate this evil in the discussions of the last year or two. I cannot go into these, I can only reassert my conviction that, although both the outside public and the inside speculators frequently make serious mistakes in the case of certain issues, involving not only an individual but a social loss, the extent to which "rigging" or "manipulation" of the market in any destructive way is possible has been very greatly exaggerated. Furthermore, such cases can generally be met by the ordinary law governing buyers and sellers and agents in all markets. The problem cannot be understood, even in its most elementary form, unless it is recognized that it is not possible to distinguish with certainty between what are called legitimate and illegitimate transactions by the mere form of the contract. Consequently there is no way for the government, through a determination of what contracts are allowable and what contracts are not allowable, to prevent the occasional unfortunate occurrences that probably must always happen, without seriously interfering with the great volume of transactions which are not only legitimate but necessary.

If this attitude toward the problem of manipulation seems to you altogether too disregardful of prevailing evils, I can only say that I find myself in accord with such men as Sir Robert Giffen in England and our own revered Horace White. Their intimate and long experience with actual conditions and their sane appreciation of what things are possible and what things are not possible should carry far more weight with a body of economists than the excited denunciations of men who have been themselves "squeezed" in some particular deal or horrified by the recital of some unsubstantiated story.

I have spoken at such length already that I can only very briefly refer to what I had intended to make a substantial part of my paper. We have just gone through an extraordinary period in financial history, when the stock exchanges of the world have for the first time been closed for more than three months. It is a period well worth studying in connection with the theories which have formerly been advanced regarding the importance of such institutions. There are those here who can discuss this matter with more intimate experience than I.

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The question may well be asked: if we got along without the Stock Exchange for more than three months, why cannot we get along without it indefinitely? If the Stock Exchange did not dare to have prices registered on its floor under free competition during this period, why is it desirable that they should be so registered at any time? The authorities, of course, had a choice of evils. If they closed the Exchange the chances were that there would be great uncertainty regarding the value of all the properties which had been dealt in. On the other hand, a crisis had With the emergency which had come about in here arisen. Europe, the dumping of foreign holdings of American securities suddenly and recklessly into our market might have led to establishing temporary prices, due merely to these emergency conditions, which would have made it impossible for any of our great investment companies, such as savings banks and insurance companies, to know anything about the ultimate value of their assets.

It has even been hinted that, regardless of the war, it would have been a good thing to close the Exchange for a while. That might possibly be true without in any way interfering with the validity of the argument. When a man gets overwrought and in an abnormal condition, from too much work or too much excitement or any other cause, it may be the best thing for him to suspend all of his ordinary economic functions and go to bed for a few days. The more serious his condition the longer must be his period of quiescence, but it does not follow from this that he can say that because he got along very well in bed for a week he might as well stay there forever. His ordinary activities and duties in the community may be temporarily suspended, but obviously this does not mean that they are of no importance in themselves.

The closing of the Exchange seems to me, then, to have proved beyond all question the importance of the open market. Everybody in this room who owns any shares of stock must have recognized that importance. The investor simply has not known the value of his property. Among us we could probably make up hundreds of cases illustrative of this. I know of one case where a conservative business man had to meet certain obligations within a given time. His bank could not carry him because the bank itself did not know the value of his collateral. Rather than beg for extension, he decided to clean his slate completely by

simply selling out certain securities which he held for investment purposes. He did this at forced sale and the very next day the purchaser sold these securities in New York at a nine point advance. This was a situation which, of course, would have been impossible had the open market been in existence. In the same way all the auction houses for securities had to go out of business. With no standard to measure by, auction sales of securities would be simply the wildest gamble.

The injurious effect, however, went far beyond the holders of securities listed on the Exchange. Not only was it impossible for bankers to tell what was the value of collateral which the borrower wished to put up, but they were in complete uncertainty as to the value of many of their own securities which they hold almost in the form of a second reserve, since these securities in normal conditions are immediately saleable and constitute the most liquid form of asset. So also the value of all kinds of outside property, not only securities but actual tangible properties, such as factories and the like, became far less certain than formerly. The whole experience was a striking illustration of the way in which all business interests are inextricably tied up together. The value of all properties is affected by the ease or difficulty with which credit can be secured and by the ease or difficulty of free investment of capital. These do not depend wholly upon the existence of an open, continuous market for securities, but depend largely upon such a market. The closing of the Stock Exchange was not solely responsible for stagnation in the matter of new investment and the normal development of new properties, but it has been a very great factor, if not the chief factor, in maintaining the continuance of such conditions.

My final conclusions, then, are as follows:

First, the events resulting from the recent closing of the exchanges of the world have justified more than ever the general economic theory as to the importance of an open speculative market for securities.

Second, past experience has quite generally proved the injurious effect of specific government interference with the rules of the Exchange. I have already referred briefly to Germany, but I have written and spoken so fully upon the results of this experiment that I will not attempt to elaborate this point here.

Third, most of the present recommendations for government regulation are based on fallacies regarding the real nature of or up

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the Exchange; that is, the function of the Exchange authorities; or upon a fallacy regarding the relation between speculation and investment.

Fourth, where the outsider cannot tell when a regulation may wreck the legitimate, easy working of this delicate machinery, the insider can tell. The authorities of the New York Stock Exchange have made genuine efforts to bring about improvement. It is thoroughly desirable that they should recognize that the eye of the public is upon them. Possibly all this agitation has had a good effect in this direction. If it be true that in the past they preferred to live in the dark and resented any consideration of their affairs, I do not believe this is now the case.

For instance, I imagine that they would not oppose a proposition that a government representative, appointed by the Secretary of the Treasury or by the Federal Reserve Board, should become a member of their governing body. If they did so they would be very foolish. Personally, I should expect no particular change from such action except, perhaps, a greater public confidence. That experiment was tried in Germany, but had no particular effect. As a matter of fact, they are already in close touch with the best bank leaders and the government authorities regarding the proper policy for the Exchange at given times. It is well to watch them, sometimes to demand explanations or make protests. But they should be watched, not as the policeman with his club watches a furtive suspect slinking up a dark alley, but rather as any employer watches the way in which an honorable and skilled mechanic handles the delicate machinery upon the efficiency of which the success of the business depends.

SPECULATION ON THE STOCK EXCHANGES— DISCUSSION

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ALBERT W. ATWOOD: I wish to confine my remarks to two points, the first made by Mr. Untermyer, and the second by Professor Emery.

It is the contention of Mr. Untermyer that a large part of the transactions on the Stock Exchange are what he terms "manipulation." Now we all have more or less of an idea what this word means, but I have never seen it carefully defined, and it is hard to find two people who agree as to what it means. However, the first speaker illustrated what he meant mainly by one instance, namely, the activity in Reading stock in one year. It appears that the entire capital stock of the Reading Company was turned over more than forty times in one year.

Now there may be manipulation on the Stock Exchange, but it is only fair to observe that the great fundamental changes in prices on the Exchange appear to bear little if any relation to manipulation, or to any artificial influence. These changes, in recent years at least, and going back for a number of years, have been due to the changes in the value of the properties the stocks represented. It is maintained by numerous economists that speculation arises from changes in the value of property, and certainly there is ample evidence that the great price movements, which after all are perhaps the best test of what is going on, have been due to the rise or fall in the value of certain corporations.

The long decline in New Haven stock was clearly not due to stock market manipulation. It may have been due to manipulation of the property by so-called "insiders," or it may not; that is not the question for us to settle. But certainly it is admitted that confidence in the property was for a time at a low ebb, and that is the reason the price of the stock declined. Exactly the same is true, even in a greater degree, of Rock Island, Missouri Pacific, and St. Louis & San Francisco, and to a less degree of Baltimore & Ohio, where the gradually realized fact that a bad investment had been made in the Cincinnati, Hamilton & Dayton property, together with the enormous distribution of Baltimore & Ohio stock by the Union Pacific, has forced the price down. On the other hand the tremendous speculation in such stocks as Lehigh Valley, Union Pacific, and Reading were largely due to knowledge, later transmuted into extra dividends, of the riches

of these companies. Mr. Untermyer has made much of Reading, but why should not the stock have been active when everyone with any familiarity with such matters knew perfectly well that some day the company would probably distribute a great extra dividend in the form of its coal lands (it owns 40 per cent of the country's anthracite coal) either voluntarily or because forced by the government? Indeed I imagine that the very year in which Reading's stock was dealt in forty times over was just before the regular cash dividend was largely increased. Why should there not be active speculation in a stock of this character? Certainly if speculation was ever warranted, it was in this case; and the same remark applies to Lehigh Valley and Union Pacific, in both of which the big burst of speculation took place shortly before big extra dividends were paid.

It is largely in these stocks that the great, fundamental price changes have occurred, and I submit that heavy speculation was warranted by facts. During the last year or two I have answered for various periodicals perhaps a thousand letters from investors. And I can assert that speculation on the Stock Exchange seems small to me as compared with that in other fields. There is constantly an enormous volume of speculation, which is what Mr. Untermyer appears largely to mean by "manipulation," in Standard Oil stocks, motion picture stocks, real estate, stocks of companies based on new inventions, and stocks of new insurance companies, all of which are not on the Exchange.

My second point has to do with Professor Emery's contention that the authorities of the Stock Exchange, or the government officials, should not direct the flow of investment. I agree with Professor Emery that it is not the function of the Exchange to direct the flow of investment, but it might well be a sound business policy for the Stock Exchange to attempt to make of itself more of an investment market.

It will be found upon examination that the Stock Exchange's service to the country has been largely to help in the development of great industries. I do not mean by this trusts, and can name ten trusts which have not had their securities listed on the Exchange. But it can easily be shown that chiefly large-scale enterprises have flourished on the Stock Exchange. Now cannot the Exchange be made a more complete mirror of values? Much of the investment bond business has drifted away from the Exchange, and relatively few of the newer public utility bonds, into which investment funds now largely flow, are listed.

Promoters of these new public utility holding companies say they do not care to have their securities listed to become speculative footballs. This is disingenuous. The Stock Exchange says that most of the newer and smaller enterprises are not good enough, not seasoned enough, to be listed. But can not a happy medium be found? The London Exchange has 9000 securities listed and the New York Exchange has only 1500.

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It is wholly incorrect to say that Stock Exchange members do not want investment business. They well know that exclusively speculative houses are pretty sure to go to the wall sooner or later. But here is the rub; the big commissions come on speculative business. Firms cannot make expenses by selling single shares of stock at 12½ cents a share, the regular commission. Now the bulk of the investment business has gone off the Exchange, to outside bond dealers who instead of charging ½ of 1 per cent commission, as brokers are compelled to do, charge anywhere from 2 to 5 per cent. Indeed a dealer cannot assume moral responsibility for bonds and investigate them without charging far more than ½ of 1 per cent.

Now the Stock Exchange naturally does not want to increase commissions and reduce business, and to charge more for investment securities than for speculative ones would be utterly lacking in feasibility. Besides the Stock Exchange regards its members as agents merely; it does not seem practical to have them assume a considerable measure of moral responsibility for the securities sold to clients, as is the case outside with so-called investment bankers. Certainly Stock Exchange brokers cannot give extensive advice and back up securities at 12½ cents a share, and if they charge more it will destroy the big, free market.

The problem is a difficult one and I am not competent to solve it. I merely wish to suggest it. Perhaps the Stock Exchange brokers can discover better merchandising methods. They should be permitted wider latitude in advertising. They should adopt a publicity campaign to call attention to desirable listed securities.

W. E. LAGERQUIST: A study of the various periods of agitation for stock exchange reform will soon convince one that these demands for reform and regulation have, too often, been wide of their mark. The whole difficulty, as Professor Emery points out, is the confusion as to the real function of the Stock Exchange. It is a confusion of the functions of the Stock Exchange, which is

only a market, with speculation, and I would go farther than Professor Emery and say with the corporation also. While everyone will acknowledge that certain evils have existed in the Stock Exchange, the beneficial results that the public is seeking and may have the just right to demand cannot be accomplished by regulating the market, but by regulating the corporation whose securities make the market.

As my time is limited to ten minutes, I wish to confine myself to this one latter point. While I am aware that members of this Association are perfectly familiar with all that I have to say, I am also aware that regulation must fall of its own weight if we disregard fundamental principles.

According to the elementary concept, if the market is free, the market price depends upon the estimated value of the goods back of the security. Further, we know that the more accurate this knowledge is and the more widely it is disseminated, the narrower will be the range in the price of that security. If this elementary statement is true it can lead to only one conclusion, namely, that the dangers suggested by Mr. Untermyer in his brief for the Pujo Committee do not exist in the Stock Exchange or in speculation, but in public ignorance of the financial status of the corporation.

It has been this ignorance of property values that has often made it possible for a small element among the professional speculators to force a price upward and bring about an unreasoning speculative activity which results in reinforcing their efforts. While actual fluctuating values of property, for illustration, did have a small bearing in the recent oil and rubber booms of England, a proper perspective has shown that the public was utterly oblivious of the necessity of actual property back of their securities. Or they accepted the word of a fakir without proof, consequently a "public speculative mad" brought on an overinflated and erratic market. Eliminate these possibilities and you reduce to the lowest possible minimum the kind of speculation that both the opponents and defenders of the Stock Exchange now repudiate. If an agent's clientele had a fairly accurate knowledge of the source of the knowledge of corporate values, there would be no basis upon which the agents could manipulate securities.

Grant that the indirect or direct regulation of the Stock Exchange by the federal government was constitutionally possible under the bill last proposed in Congress, what would be the result?

Corporations would have a perfect right to withdraw their securities from the Exchange, and it is quite probable that they would in many instances, because of the disadvantages of being listed. Of what avail then, would legislation be that would thwart its own purpose? Even if the companies now listed should all continue on the Exchange, a very large amount of corporate securities would be offered outside the Exchange. It is in connection with such outside securities that some of our grossest frauds have occurred. The regulation of the Stock Exchange would have no effect whatsoever on these securities, and it has been in the purchase of these securities that the small buyer has suffered the greatest losses. Not only will you find strong opposition within the Stock Exchange against such corporations, but the Investment Bankers Association, which has a large membership in the Exchange, is carrying on an effective movement of publicity and legal procedure against these fraudulent enterprises.

If, then, the greater part of your corporate securities would not come under the jurisdiction of the Exchange regulation, your legislation would have no end. The real object of the agitators for reform is "full value." Would not then the most effective method of obtaining the facts desired be to go to the source upon which your values rest, namely, the corporation? Require the corporation to submit all the necessary facts that are essential to determine the value of its securities; you would then be able to reach not only all corporations doing an interstate business, but you would also make it possible to reach the class of offenders that have been the worst sinners. The New York Stock Exchange has asked for this regulation for a long time; it would relieve it of some of its greatest difficulties.

To anyone who has been connected with any kind of financial institution more than to anyone else, the danger of a single institution acting as a guide to the public in respect to hundreds of corporations is most apparent. How could the Exchange become sponsor for shifting values? In some industrials the price, even under the most efficient policy, fluctuates widely, and although the prevailing price may indicate what we now think, it may not be the correct criterion for the investor at that time. While the average market price over long periods does reflect the condition of a corporation, would it be the part of wisdom to vouchsafe that this reflects the future value of securities? Would it not be a

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sounder economic policy to have the facts about all corporations and let the individual or the agent of the individual purchaser interpret the meaning of the facts? For all that the Exchange could do would be to give the facts; it could not assume the position of an interpreter or guarantor.

The danger of this policy is illustrated by the incredible number of people who now accept the certified public accountant's certificate, which is a mere assertion that he has found the exhibited statement a true exhibit of the financial accounts of the corporation, as a guarantee upon which they may rely as an indicator of good values in securities. No one need argue to how much greater extent these companies would be accepted as guaranteed under the regulated listing proposed in the bill referred to above. The guarantee to the investor is quite a different thing from a mere statement of facts. This likewise incidentally shows the necessity. regardless of what the regulation may be, of expert interpretation. And in this regard I should disagree with Professor Emery if he intends to imply that the broker should in the strictest sense of the word be a mere agent. The broker cannot assume the position of a guarantor, but he must be an interpreter of what the facts given may mean.

In the discussion of this one point I have agreed with Professor Emery that the Stock Exchange should not be regulated, but I have not denied that manipulation has existed in the past. I have stated that certain evils have existed, but if time allowed I should consider the reforms made in response to public demands, and especially the new attitude that has recently come into the Exchange. I have not stopped short with Professor Emery in stating that I believe that the Exchange should not be regulated. On the other hand, I have offered a more fundamental method of regulation than Mr. Untermyer proposes in that it includes all interstate corporations, which the bill that he wrote for the Pujo Committee does not include. It not only simplifies the work of regulation. but it would place the administration of corporations under an independent bureau, and it would eliminate the question of constitutionality which forced Mr. Untermyer to frame an act that would regulate the exchanges through the United States mail. and thus place the exchanges under the jurisdiction of the Postmaster General. The absurdity of this last everyone recognizes. While no one would now deny that the Exchange should have been

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closed earlier, is this not far from proving that the government would not have erred? It is often so simple to draw correct conclusions with the aid of historical perspective that we, too often, in our post mortem, assume that we would have made a correct interpretation at the time. As a matter of fact, the banks rather favored a longer delay in the closing of the Exchange, which is only proof of the liability of error in such a technical problem even with the best ability available. The Exchange is to be congratulated rather than condemned on the effective way in which it closed in the face of much opposition. It is largely due to its

action that a great financial panic was prevented.

In conclusion I should like to raise questions concerning three points urged by Mr. Untermyer which I do not believe his statements proved. I refer to his oral discussion, as I have not had the privilege of seeing his manuscript. (1) He maintained that "tremendous losses in securities values were experienced" because the Stock Exchange did not close twenty-four or forty-eight hours earlier. And he adds that if the Stock Exchange had been under the control of the government it would have been closed in time to prevent these losses. No one denies the fall in securities prices, but does he offer any proof that the government would have closed the Exchange earlier, or even that it would not have closed it later? Does not Mr. Untermyer assume that the judgment of the same individuals when acting in a governmental capacity is infallible if what he says is true? (2) Mr. Untermyer states that the capital stock of the Reading Railroad was turned over forty-three times in one year; consequently he assumes that the stock was manipulated. The stock, as far as I know, may have been manipulated, but this does not prove it. A Chicago merchant told me the other day that he had purchased some goods which had been bought and sold five times before they reached him. Now it cannot be assumed without further evidence that manipulation existed. It is interesting to note that the thirteen securities to which Mr. Untermyer referred were probably the most speculative stocks of the whole list on the Stock Exchange, and it is not fair that these should be designated as indicating the average condition on the Exchange. While unwarranted buying and selling may have existed in these particular securities in the past, it can hardly be said to have been the condition in the last two or three years. Further, it is interesting to note that he has made no mention of the change that took place in the property values of these particular companies that he referred to, both in his brief and his paper before the Association. (3) Mr. Untermyer implied that the Stock Exchange was largely responsible for the crippling of the money market of New York in 1907. It probably did have an influence along with a great many other factors, but before his statement can be accepted, would he not have to explain why and how the New York banks distributed practically a quarter of a million in currency to other parts of the country? Secretary Cortelyou in his annual report of 1907 says of this period: "The national banks outside of New York City, in spite of heavy demands upon them, were able by the aid of New York to maintain an amount of cash in December actually larger by a small amount than they held at the date of the previous report on August 22, when conditions were yet relatively tranquil."

ARTHUR RICHMOND MARSH: The particular question under discussion here this morning is the desirability of the regulation and supervision of the stock exchanges and commodity exchanges of the United States by the federal government. Mr. Untermyer, to be sure, has so thrown the New York Stock Exchange into the foreground of the picture that little attention has been paid by him or the other speakers here today to the stock exchanges of other cities or to the commodity exchanges at all. The indefensible practices and the enormous uncontrolled power of the New York Stock Exchange have been the burden of Mr. Untermyer's discourse; and he has striven to impress upon this audience of trained economists the necessity of governmental control if the indefensible practices are to be abated, and the propriety of governmental control if the enormous power is to be kept within the bounds of the public interest. He has shown very clearly his opinion that, quite apart from the means that may need to be taken for the cure of specific evils, it is a general truth that governmental regulation becomes imperative for any department of business as soon as it is seen that the community at large is vitally affected by what goes on within that department of business. His conception of the organization of society and of government is that only the unimportant businesses should be left to the free activities of private individuals, but that all businesses which grow to importance should be removed from the domain of private

initiative and brought within the sphere of governmental action. He obviously rejects the notion that substantial justice can be attained, as between any great business and the rest of society. through the operation and influence of the enlightened self-interest and the moral ideals of those immediately engaged in that business. To him the inherent weakness and unregeneration of the individual members of society and the inherent righteousness and justice of the government established by society have evidently become the only sound philosophy of the state. He points to the manner in which we have subjected the railroads, the telegraph and telephone companies, the banks, the insurance companies, and now all the great business enterprises, to governmental control and regulation. as these have emerged, one after the other, from their small beginnings and acquired a general consequence to the public. And he urges that, inasmuch as the New York Stock Exchange affects the interests and welfare of very large numbers of persons all over the country, it too should be placed in the category of things governmentally directed and supervised. In arguing for this contention he derives what may be called his psychological appeal from the recital of alleged abuses of power and evils of practice on the part of the Stock Exchange, its governors and members. His economic and political appeal, however, comes from the doctrine which he evidently holds that the thing to strive for now in this country is an enormous increase, or even exaggeration, of the function of government, and a corresponding diminution of the self-regulated freedom of individual citizens in their various activities and pursuits. In other words, he would have us reverse the theory of our society, as we have inherited it from the past, exalting that which we have held in small esteem, the power of government, and abasing that which we have believed to be the particular means of our nobler success in the world, the self-directing and self-governing energy of our private citizens, limited only by general laws embodying the accumulated wisdom of the race upon the conduct of men in society.

It is only proper that a participant in a public discussion, such as is now going on both here and elsewhere with regard to Mr. Untermyer's proposals in connection with the Stock Exchange, should make clear to his hearers at the start what his own point of view is about the doctrine of the social and economic advantage of governmental control and regulation of the important business

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activities of the community. For this reason I venture to say for myself that I do not share in the least degree Mr. Untermyer's views. I have ceased to believe in that fundamental conception of the assumed superior organization of society and more beneficent function of government, from which the theory of the advantage of governmental interposition in the conduct of businesses. however important to the community, proceeds. I have had perhaps unusual opportunities to observe, during some fifteen years past, the actual work done by the ever-increasing number of governmental agencies concerned with the conduct of affairs, and this work has seemed to me to be, substantially without exception, ignorant, ineffective, bungling, and unfortunate in its effects. I do not know where any good to the body politic can be pointed to as having come from the commissions, departments, bureaus, or whatever they may be called, which have been so numerously created by the nation and the states for the regulation of this or that of our important businesses. I have, however, seen them in a multitude of wavs deadening enterprise, limiting ambition, restricting constructive effort, and, perhaps worst of all, filling with a kind of mental despair the finest spirits in the fields of their activity. That the Interstate Commerce Commission, for instance, has been and is an incubus upon the railroads of the United States appears to be self-evident for any one who has studied the actual effects of its work, with a mind free from the current conventional assumption, which dominates most, that the Commission is a kind of palladium of the public liberties, in so far as the railroads are concerned.

All that I have just said, however, must be taken, not as intended to press my own opinions about these larger matters, but rather as a necessary indication to my hearers of the point of view from which I approach the particular matter of Mr. Untermyer's proposed subjection of the Stock Exchange to governmental control and supervision. Antecedently, in the light of my observation of governmental control and supervision in other directions, I am opposed to what Mr. Untermyer contends for. I conceive that the economic welfare of the country as a whole requires a stock exchange which is free in its motions; eager in its search for opportunities; active in its endeavor to learn all that can be learned of the changing economic and financial conditions at home and abroad; ready to act and to persuade its customers to act upon

this knowledge, when obtained; and, in general, strong and efficient as the organ through which pulses the life-blood of the economic body politic. Whatever may tend to impair the function of this organ appears to me to involve incalculable loss to the higher industrial and commercial effectiveness of our entire society; and I know of nothing that will more certainly tend to this impairment than such intervention of the government in all the affairs of the Stock Exchange as Mr. Untermyer argues for.

All this, however, may be said to be mere opinion and to be entitled to no more weight than Mr. Untermyer's opinion on the other side. I think, indeed, that it may truly be said that this whole discussion has been confined for the most part to opinion, and that very little attempt has been made to reduce to concrete terms the general proposition of government regulation of the Stock Exchange. It seems to me worth while to get over from the field of abstractions into that of concrete realities, in so far as we can do so. There is in Mr. Untermyer's project one feature which is wholly concrete, even at this very moment. It is that the control and supervision of the Stock Exchange should be entrusted to a particular administrative officer of the government, namely, the Postmaster General. Now the Postmaster General of the United States is a perfectly concrete individual, who is known very well to some of us, in respect to his characteristics as a thinker, as a legislator, and as an administrator. His name is Albert S. Burleson; and before he became Postmaster General he was for many years very prominent in the national House of Representatives. Not only so, but Mr. Burleson's special line of activity as a Congressman was regulating business. It was he, more than all others, who busied himself with the governmental regulation of the cotton exchanges, and particularly the New York Cotton Exchange. In this connection he was fecund in bills, prolific in speeches, incessantly active in committees and in the government departments, and as ingeniously persistent, above and below the surface, as Mr. Untermyer himself. There is, therefore, not the slightest difficulty in ascertaining both Mr. Burleson's attitude of mind and his practical methods in the application of the principle of governmental control and supervision. He can be followed through the Congressional Record, through the records of hearings before the House Committee on Agriculture, through the monumental work of the Bureau of Corporations upon the subject of columns

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Now, what stands out in these documents as the predominant characteristic of the Postmaster General is that he is a thoroughly a priori regulator of business. He is entirely indifferent to knowledge of the facts, as a preliminary to regulation; he forms his regulative opinions first, and then casts about for allegations of fact, in order to make out a case for his opinions. Nothing is too fimsy and improbable in the way of rumored fact to be acceptable to him if it confirms his opinions; nothing is too substantial and undeniable to be dismissed by him with contempt if it makes against his opinions. He will seize upon any kind of economic absurdity as ample justification for the invasion of the dearest rights supposed to be guaranteed to citizens by the constitution: and he is willing to run any risks of paralyzing a great department of the country's business, of bringing great losses upon vast numbers of persons, and of interfering with all the normal courses of domestic and international commerce and finance, provided he can bring to realization a grotesque theory which he has adopted. In his eyes, unfortunate and perhaps transitorily abusive incidents are alone worthy of attention; and he is indifferent both to the vast mass of regular and wholesome activities, in which such incidents are scantily interspersed, and to the curative processes which are at once set in motion by the indignant reaction of honorable minds against these incidents. He is always for taking the rare and abnormal as typical, and for applying the whole force of the government to the compulsory adjustment of the sound and usual to formulas conceived from the standpoint of the unsound and unusual.

This is the concrete individuality who, if Mr. Untermyer had succeeded in procuring the adoption by Congress of his bill to regulate the Stock Exchange, would actually at this moment be controlling and supervising the affairs of that institution. But, it will be said, postmasters general come and go; and it is not to be expected that Mr. Burleson's successors will be of his kidney. This much is certain, however,—the postmasters general of the future, whoever and whatever they may be, will all be political appointees, and the great majority of them, by reason of the localities from which they come or by reason of the occupations through which they have attained political prominence, will have virtually no

direct acquaintance with either the theory or the practice of domestic and international finance. At the best, they will be honest and industrious shoemakers undertaking to regulate watches, if they are given the duties to perform which Mr. Untermyer's stock

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And this brings me to what is after all the main point of my argument. It is possible that to some of this audience I may have appeared unduly critical with regard to Postmaster General Burleson, and even to have been moved to some extent by considerations of resentment at the part he has played in the year-long agitation for the deprivation of the members of the New York Cotton Exchange of their freedom of judgment and action in their own business. I cannot, however, be charged with allowing my opinions to be determined by my personal feeling toward an individual when I say that I have reached the conclusion that the best obtainable knowledge and fairness of mind in an officer of the government would yield results, in the way of discretionary regulation of the Stock Exchange or any other exchange, quite as detrimental to the larger public good as would an extreme predisposition on the part of such an officer to stretch the exchange upon the Procrustean bed of his own prejudiced theories. To illustrate what I mean, and with no intention of discourtesy, I am going to take as an example of an ideal public officer for this particular duty the one man in this country who, in the opinion of the judicious, is at once the most competent in his knowledge of security and commodity exchanges and the most judicial in his attitude towards the questions involved in the conduct of their business. I mean Professor Emery, whose address you have this morning listened to. Nobody admires more than I the work which as an economist Professor Emery has done in this field. And yet I am convinced that it would be a very great misfortune, not only for the Stock Exchange, but for the country as a whole, to have Professor Emery, in the capacity of Postmaster General, compelled as a part of his duty, under a law such as Mr. Untermyer proposes, to supervise and regulate the Stock Exchange. For acute as Professor Emery's observation has been of the facts of the business of the exchanges, sound as his method has been in correlating and intrepreting the facts, trustworthy as are his general conclusions from the facts, it is still apparent to one who has lived face to face with and actually participated in the operations of a great exchange that Professor Emery more than once lays the emphasis on the wrong place, that there are important aspects of the business which are virtually unknown to him, and that he overlooks many secrets of the function of the exchanges. For example, the prominence he gives to the speculative activities of these markets and his subordination of their distributive activites results in a distinct distortion of the picture he has of them in his own thought. In particular, the great insurance, or "hedging," functions of the exchanges, both for commodities and for securities, which in recent years have come to be vastly more important than they formerly were, have received very incomplete attention from Professor Emery.

If, however, Professor Emery were Postmaster General, and his duty were to supervise and regulate the Stock Exchange, he would have no other course open to him but to be guided in the exercise of his vast discretion by such knowledge of the facts as he has and by the conclusions he has derived from those facts. Under the pressure of his general duties he could not hold his hand. pending a fresh examination of the phenomena. He must act; and he must act according to the best judgment which the state of his knowledge makes possible. And if he were to do so, given his unquestioned competency in this very field, he would, in my opinion, produce very fortunate effects in respect to matters vitally important to the health and efficiency of the Stock Exchange. The institution would be checked and clogged in its most valuable activities, and its service to the community would be lessened to an incalculable extent. Here, then, is the true reason for my own inability to accept as beneficent the theory or the practical details of Mr. Untermyer's measure, intended to prevent in the future the abuses on the Stock Exchange, which he alleges to have been general in the past and even now to be irremediable through the operation of moral forces within the Exchange itself.

J. H. Underwood: To those who live at a distance from the Exchange, the very intricacy of its mechanism, the uncertainty whether we understand its operations on the whole or at a given time, seems in itself a reason, although a minor reason, why we should have some representation in the oversight of its activities. Since, as we understand, it has some relation to prices that concern us, some influence on values of securities that affect us, some relations to price the concern us, some influence on values of securities that affect us, some relations to price the concern us, some influence on values of securities that affect us, some relations to price the concern us, some influence on values of securities that affect us, some relations to price the concern us, some influence on values of securities that affect us, some relations to price the concern us, some influence on values of securities that affect us, some relations to price the concern us, some influence on values of securities that affect us, some relations to price the concern us, so the concern us the concern u

tion at times to losses by outsiders who are not discouraged from investments, it seems to us that we might well have some one near at hand to watch it with our eyes and with more disinterestedness than is probable from a control whose chief interest is profits. There is in this suggestion no question whatever of the business integrity of those who govern the Exchange.

After hearing the papers of the discussion it seems desirable that some one expert in the subject should connect more clearly the argument as to the functions of speculation, and the agency of the Exchange in speculation with the extraordinary extent to which the process that has been described as "pyramiding" is carried on.

Possibly it would serve the good of the outside or distant public if the government simply had some representatives in the membership of the Board of Governors of the Exchange.

WM. C. VAN ANTWERP: In an adress delivered at Yale University Mr. George W. Alger, speaking of our moral standards in business affairs as affected by recent developments in America, used these words:

Pessimism has always a knowing air and it usually has some definite superficial fact or other to point to as its justification. But the noticeable thing about these waves of general pessimism is that they usually seem to come a little late. They tend to get strongest when the reason for coming has largely disappeared. . . . These pessimists remind me of an old lady in my native city who made a specialty of going in and talking about death to convalescents. Somehow she never seemed to get around to prepare her sick friends for death until after they were really beginning to get well, and she would then discourse on her favorite theme so earnestly that she quite overlooked the actual condition of the patient.

As I have not been favored with an advance copy of Mr. Untermyer's address, I have listened with great care to what he has had to say. He has conveyed the impression that the Stock Exchange is an important institution; here and there his pages are sticky with a little syrupy praise; but on the whole he would have us believe that iniquities of various kinds are all too prevalent. These iniquities call for repression, he tells us, and he offers to set them right through government supervision by enforced incorporation.

That the Stock Exchange is an important institution calls for no comment in the limited time allotted for a discussion of Mr. Untermyer's paper. Similarly we need waste no time over his statement that there are a few honest men within its membership.

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We are mainly concerned here with the statements, first, that iniquities are rife, and, second, that his proposed remedy will correct them. Mr. Untermyer makes the statement here and elsewhere that minipulation is an important part of the business of the Exchange. He insists that the existence of misleading transactions of this character constitute a valid reason for incorporation or public supervision. If such transactions really do exist, he is correct in his conclusion. But he does not tell us when, where, or how these alleged transactions manifest themselves. The Stock Exchange has a hard and fast rule absolutely prohibiting such transactions and we should be very glad to have any information that Mr. Untermyer can give us in order that we may punish the offenders. It is Mr. Untermyer's duty to do this, but he owes a still greater duty to the state. Manipulation of any kind is prohibited by the Penal Law of the State of New York, Chapter 253. Mr. Untermyer, as a lawyer, is an officer of the court, and it is his duty to report to the district attorney any evidence which he may have tending to show a violation of this statute. He has an added duty as a public-spirited citizen who seeks the confidence of his fellow men. Nothing remains to be said. The fact that he has not reported these alleged infractions of the Penal Law to the district attorney or to the officials of the Stock Exchange speaks for itself.

Lincoln is said to have laid down this legal maxim: "In law it is good policy never to plead what you need not, lest you be obliged to prove what you cannot."

The gentleman who just addressed you is too good a lawyer to ignore this warning, in so far as it applies to a court of law. But he is not now in court. Here he pleads too much and proves too little. His assertion that misconduct prevails within the Stock Exchange is utterly unsupported; he asks you to take his word for it, because, unless you accept that obiter dictum, his whole structure falls to the ground. Each charge made here has been dissected and analyzed by competent authority; all the evidence that could be brought to bear pro and con has been submitted to the Senate Committee on Banking and Currency, and I will gladly place it in the hands of every person present in order that he may analyze it for himself. This evidence was submitted to the Senate Committee a year ago in a protracted public hearing resulting from Mr. Untermyer's efforts to enact into law his pet measure of

incorporation. His effort was unsuccessful; the Senate Committee has not even reported his bill. The natural inference is that he has failed to make a case, but, as I said before, you may judge for yourselves after you have studied both sides from the government's published report of the evidence. I think you will find that what is there revealed is an attempt by Mr. Untermyer to exploit the exceptional in order to attract attention to a theory which cannot otherwise survive.

The gentleman has shrewdly prepared for an adverse verdict on his specific charges by supplementing them with abstract charges. He says in effect that if you are not content with his unsupported statement of specific wrongs actually done, you are to consider the *power* which the Stock Exchange possesses, a power, he tells us, which may conceivably do monstrous things. He has of course a perfect right to argue any abstract question so long as he confines himself to abstractions, but when, eloquent with all the vitality of sophistry, he postulates his remedy on a thing which has never happened but which merely may happen, we call upon him for a bill of particulars.

Actually the case is this: The Stock Exchange could not exist if the enlightened self-interest and sense of justice of its members did not result in public good; instances to the contrary are exceptional, and you cannot accept as a valid argument against a right or a power otherwise well established, that it may be liable to abuse, unless the actual demonstration of the prevalence of such abuse neutralizes the good effects of that power. If this process of reasoning is sound, what becomes of the unsupported contention to which you have just listened?

Of course the Stock Exchange possesses a power which may be wrongfully exercised; so also does every human agency. You and I have within us the power to do murder; the church possesses the power to preach heresy. But the fact that we do not do these things affords a tolerable assurance that we will not do them, and this is the way in which society arrives at its verdicts, basing its conclusions on the things men do and not on the things they have power to do. The real power of the Stock Exchange is the power through which it has attained its eminence, namely, a just conception of duty to the public, a definite policy founded on that conception, and a firm execution of such policy. Dealing in the evidences of one-fifth of America's material wealth, its prices accepted by

courts and legislatures as the standard barometer of business and trade, where would it be today but for a general recognition of its high standards of business morality? And where would any of us he if nightmares of bondage were imposed upon us by statute, merely because we possess the power to do wrong?

Proceeding from one sophistry to another, Mr. Untermyer arrives at his second point. He says that because the Stock Exchange possesses such power it should be forced to incorporate and that it should be placed under the control of the Postmaster General. Now then, in every suggestion of this kind, having to do with the public good, the burden of proof as to the justice and wisdom of any restrictive measure rests on the authority proposing it. The gentleman evades this responsibility, and so I must ask your indulgence whilst I look into this proposal.

The Stock Exchange, as Professor Emery has shown you, is merely a meeting place for its members, who are the agents of others. It is a voluntary association, and not a corporation. It has grown to its present importance through the wealth and development of the country. Speculation on a large scale has accompanied its growth, and speculation, I need scarcely remind this audience, is a necessary and useful part of all business. speculation numbers among its adherents people in all parts of the world who have a perfect right to speculate, and whose operations do vastly more good than harm. It has also attracted others who have no business to speculate, and who would be prevented from doing so if it were possible. To this latter class Mr. Untermyer's proposals are directed. He tells us that government can set everything right, and that through all-wise and beneficent lawmaking the ills of society may be cured.

It is an ambitious program, affording a view of a distant Utopia and of the Delectable Mountains of humbug. No government is or can be better than the governed; no government is all-wise and few are beneficent; no law can lift a people above the level of its tastes and inclinations. These things are not the business of government. It is not a philanthropic agency; it cannot, save in a restricted sense, protect the individual against himself. All that government can do, in or out of the Stock Exchange, is to secure an ideal measure of liberty and of equal opportunity for all men.

leaving the individual to work out his own salvation.

But the Stock Exchange itself can do much more than this, and

it has done it. It has attempted to put an end to unwise and unsafe speculation by its resolution of February 13, 1913, prohibiting its members from transacting business on insufficient margin, and it has appointed a Committee on Business Conduct empowered to see that this rule is obeyed. Despite the fears of my opponent, it has put an end to manipulation through its resolution of February 5, 1913, and here too a standing committee with large powers enforces that law, while the full Board of Governors determines what punishment shall follow its violation. I shall be happy to send to each one of you a copy of the constitution of the New York Stock Exchange in order that you may see how earnestly we strive to prevent wrongdoing by our own members, or the abuse of our facilities by non-members. Perhaps these and other restrictive measures may prove, as time passes, to be insufficient. In that case I think we may be trusted to go farther. In any case you will find, I am sure, as you delve into our affairs (which we cordially invite you to do), that the governors of the Exchange and almost all its members are men as deeply imbued with the potent spirit of honor and fair dealing as are the men who make the country's laws. Aside from the heart and conscience to which all business men in America are listening today as never before, members of the Stock Exchange are always face to face with the fact that their reputations, their good names, and their private fortunes are at stake, each alike dependent upon the good conduct of the business in which they are engaged. More than that, they could not, if they would, ignore the voice of public opinion.

Now we are agreed, I am sure, that while men cannot be remade by statute, they can be and they are kept straight by what the public thinks and says about them, and this is as true of laws as of the men who make them, or the individuals affected by them. However virtuous and high-minded the men who make our laws, any restrictive measure aimed at the Stock Exchange or at the individual becomes a dead letter or an active instrument of oppression and graft unless it is reënforced by that which is above law itself—the supreme voice of public opinion. The legislative remedy which fails to recognize this truth does more harm than the disease it professes to cure. And this, as it seems to me, exposes another fallacy in Mr. Untermyer's contention that more and more laws are needed to do for the Stock Exchange what the honesty of its members, supported by public opinion, alone can do.

In what way, then, has public opinion expressed itself on this matter of incorporating the Stock Exchange? It is so old a subject, and so much has been written about it, that I cannot do more in the limited time allotted, than to sketch it in outline, although I shall be glad to place in your hands fuller information if you desire it. The English Parliamentary Committee on Foreign Loans first investigated the subject in 1875, rejecting incorporation on these grounds (I am quoting from the report):

That such a body (the Stock Exchange) can hardly be interfered with by Parliament without losing that freedom of self-government which is the only life and soul of the business.

Again, in 1877, the subject was referred to a Royal Commission, which reported, after a year of investigation, as follows:

In the main, the existence of the Stock Exchange and the coërcive action of the rules which it enforces upon the transaction of business and upon the conduct of its members have been salutary to the interests of the public. . . . Any attempt to reduce this rule to the limits of the ordinary laws of the land or to abolish all checks and safeguards not to be found in that law, would in our opinion be detrimental to the honest and efficient control of the business.

I am sorry I cannot go into this report in detail; here I can only say that the London Stock Exchange remains, to this day, free from the fetters sought to be imposed by incorporation.

The proposal was next heard of in Berlin, where, in February, 1892, the Chancellor of the Empire appointed a commission of twenty-eight distinguished lawyers, economists, merchants, and landed proprietors to pass upon the question of imposing restrictions on the Berlin Boerse. This commission spent twentyone months at its labors, reporting adversely, on grounds similar to those adopted by the English commission. The fact that this report was ignored, that the politicians took matters into their own hands and forced the enactment of hostile laws, and that these laws brought about a distaster to German trade and industry, are matters of history which have been admirably treated by Professor Emery in his "Ten Years' Regulation of the Stock Exchange in Germany." The greater part of this law has now been repealed, but Germany has never entirely recovered from its baleful effects. Here we have a practical illustration of an instance where government regulation caused infinitely more harm than the difficulty it attempted to remedy.

We next hear of this project in New York, in 1909, when Gov-

ernor Hughes appointed the famous committee of which an honored member of this body, Mr. Horace White, was chairman. It would be futile to attempt to add anything to the reputation of that commission; even Mr. Untermyer has pronounced it, "A very eminent commission."

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After calling the attention of the Stock Exchange to the necessity for various reforms (which, I am proud to say, the Exchange has adopted) the Hughes Commission referred to the subject of incorporation in these words:

We have been strongly urged to recommend that the Exchange be incorporated in order to bring it more completely under the authority and supervision of the state and the process of the courts. Under existing conditions, being a voluntary organization, it has almost unlimited power over the conduct of its members, and it can subject them to instant discipline for wrongdoing, which it could not exercise in a summary manner if it were an incorporated body. We think that power residing in a properly chosen committee is distinctly advantageous. The submission of such questions to the courts would involve delays and technical obstacles which would impair discipline without securing any greater measure of substantial justice. While this committee is not entirely in accord on this point, no member is yet prepared to advocate the incorporation of the Exchange and a majority of us advise against it, upon the ground that the advantages to be gained by incorporation may be accomplished by rules of the Exchange and by statutes aimed directly at the evils which need correction.

These, gentlemen, are all conspicuous and historic instances in which the subject of incorporating the Stock Exchange has been investigated and determined by experts. Less conspicuous, but equally emphatic, was the rejection of Governor Sulzer's measure by the New York State Legislature in 1912 by a vote of 33 to 7, after protracted hearings at which Mr. Untermyer himself appeared and argued for incorporation. Again, only last year, the matter found its way to the Senate Committee on Banking and Currency at Washington, to which committee was reported a bill introduced by Senator Owen of Oklahoma,—a bill drawn by Mr. Untermyer himself, and argued by him at the public hearings with great force and ability. Many witnesses appeared against it; he alone supported it. It still rests in committee.

Finally, there is the investigation at the hands of the Committee on Legislation of the New York County Lawyers Association. Mr.

 $^{^1}Record$ of Hearings before Senate Committee on Banking and Currency, p. 74.

Untermyer was himself chairman of this committee, and he appeared and argued at its meetings when the subject of incorporating the Stock Exchange was under discussion. This committee made two majority reports, both of them opposing the incorporation of the Stock Exchange, on the ground that the measure "will produce no beneficial changes and besides will do positive harm."

With your permission I will read one section only from one of these majority reports:

The bill is not needed to enforce an honorable course of conduct between the members of the Exchange. No more honorable body of men exists anywhere in the world. Transactions involving large sums of money are consummated every minute without any writing, and only by a movement of the hand or a nod of the head. In pursuance of the desire of the members of the Exchange to have all their dealings clean and above board, tremendous power is given to their Board of Governors, with the result that the Board is able to rule with a firm and just hand. No such result would be possible if the Exchange were incorporated.

Now, gentlemen, where do we stand? Three very eminent government commissions have passed upon this project and have rejected it. The New York State Legislature has rejected it; the Law Committee of the New York County Bar Association has rejected it, and a committee of the United States Senate has pigeonholed it. All the evidence and all the reports are at your service; if you want further information we will throw open to you any channel of inquiry you may desire. What remains is the fact that there must be something fundamentally wrong with this measure.

It is always the safest plan in judging the expediency of any measure to consider its possible defects as well as its possible benefits, and this explains the consistent rejection of incorporation by those accustomed to putting facts before fancies and reason before sophistry. They have found, as I have shown you, that no good purpose would be accomplished by the incorporation of the Exchange; that on the contrary the substitution of public control for the control exercised by the Exchange over its own members would be detrimental to the public interest. For example, a vital function of the Exchange is the exercise of its disciplinary power over its members. Under our Stock Exchange law any act which in the judgment of our governing board violates "just and equitable principles of trade" may be punished as severely as circumstances

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warrant. Because we are a private association we may impose upon our members standards much higher than the standards prescribed by law, and this is one of many much standards. When under this code a member is suspended or expelled the penalty becomes operative immediately, and while he may of course turn to the courts, it is a remarkable fact, testifying to the ability and high character of the governing committee, that its action in expelling or suspending a member has never been interfered with by any court in the land.

If we were forced to incorporate, what would happen? The charter would provide, among other things, for a judicial review of the actions of the governing committee, and courts could only interpret our laws according to the laws of the land. There would be countless injunctions and stays of proceedings, years would be spent in carrying cases to higher courts, and meantime the offending member would continue his activities on the floor of the Exchange although his behavior there might constitute a serious menace to the whole body. Discipline could not possibly be maintained in such circumstances, and the standard we are so proud of,-"just and equitable principles of trade,"-would come to mean only what the courts declared it to mean. This is what the Parliamentary Committee of 1875 meant when it said that interference by government would take from the Stock Exchange "that freedom of self-government which is the life and soul of the business."

"The Exchange applies the layman's view of what are just and equitable principles of trade," said Mr. Milburn in a memorable brief, "and is governed more by moral than by strictly legal considerations. There is a wide difference in such matters between what is just from the point of view of honorable conduct and what is just from the point of view of legal rights. It is on this principle that members of the Exchange have been punished by expulsion or suspension for acts contrary to the morals of business, but without any taint of wrong in them in a legal sense." He goes on to say, in language from which I am sure you will not dissent, that "There is no comparison between the competency of the governing committee as a tribunal to try such cases, with its experience and intimate knowledge of the business and its appreciation of the effect of the acts with which the member is charged, and the competency of the ordinary judge without that experience, knowledge,

and appreciation. . . . These are reasons for our statement that a full judicial review of the disciplinary judgments of the governing committee would lower the whole tone of the Exchange and radically impair its standard of just, equitable, and honest dealing. Any movement which deteriorates its standard is inimical to the public interest to a degree commensurate with the vast dealings of which it is the center, and with the function it performs."

My opponent argues that because of its large relationship with the whole public the Stock Exchange really exercises a function of nation-wide importance as a sort of public utility and that its control properly belongs to the government. Where privileges, franchises, or monopolies have been granted, ves. But the Stock Exchange neither asks nor receives anything from the state or the nation, nor does it ask or receive immunity from any law which government or state may enact. Members of the Exchange are just as amenable to the laws of the land as other persons, and a prohibited act is just as unlawful on the Exchange as anywhere else. When, for example, the state legislature enacted the law prohibiting manipulation, that law became just as applicable to transactions within a voluntary association as it would be if it were incorporated. Hence the necessity of regulation on this score is not an argument for incorporation, since it may more easily and less dangerously be accomplished by general laws.

Mr. Untermyer wants the government to have access to the books and accounts of members of the Exchange, in order that the Postmaster General or his subordinates may see what is going on. As I have just explained to you, members who violate any general law may be summoned to court with all their books and papers. But this is not enough; there is to be a body of public officials, political henchmen, constantly examining the books and papers of 1100 members of the Exchange to ascertain whether they have violated the charter of incorporation. I should say the taxpayers would have something to say about this; certainly the moral sense of the community will recoil from an espionage at once so impracticable and so intolerable. The gentleman who proposes this form of servitude is a lawver; his profession also is one invested with a public interest; immense power for good or for evil rests upon its shoulders; from time to time grave abuses appear which the bar as a whole deplores, and which it strives earnestly to prevent. Would the gentleman welcome a proposal to throw open all his

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books and papers and all the affairs of his clients to a swarm of spies and detectives? Would he concede to the Postmaster General a right to act as judge, jury, prosecuting attorney, and executioner in all his professional affairs? He would resist such a proposition to the utmost, and he would be generously supported in so doing by an aroused public opinion.

I cannot go into this subject further, because my time is nearly gone. Public regulation and control of the Stock Exchange when analyzed is without useful purpose, practicability, or meaning. That the Stock Exchange is not perfect is conceded; few human agencies are perfect. But the measure that is here proposed is without efficiency or merit to remedy those imperfections. It is not merely a 15-inch gun to be used to shoot sparrows, as Mr. Conant has described it, but it is a new and untried weapon which, like many similar inventions, may conceivably recoil or burst with consequences much more serious to the bystanders than to the evils it seeks to annihilate. I do not ask you to accept my unsupported statement on this score, but I do ask you to remember that this project has been considered for forty years by experts and condemned by them all, in official reports, briefs, and other memoranda, all of which are open for your inspection.

One word more and I shall have finished. The gentleman has said in a letter to the New York Times on November 24, and he has repeated the statement here today, that the action of the governors of the Exchange in the recent crisis incident to the outbreak of war was "irresponsible," that it was "a foolish and desperate blunder," dictated only by selfish motives, that it was "anomalous" and "intolerable," and that the present "uncontrolled license" enjoyed by the Stock Exchange, "spells panic and general disaster for the rest of the country," and so forth, bruising the unresisting air with invective and passion. He was in Europe during this crisis, and he has fallen into error. It is not the habit of the Stock Exchange to boast of its achievements, but I am sure this audience understands that, under the leadership of our famous Committee of Five, the Stock Exchange was at all times in close contact with the best advice and assistance the country affords, that its action was unselfish and public-spirited, and that all its work in this crisis has been generously applauded by officials of the government, by the banking interests, and by the press.

I am sorry that my distinguished friend should be so unhappy

about it, and my sorrow is mingled with solicitude. As I have listened to him, I have been thinking of Sterne's advice to Smollett, who had been visiting the Continent and saw everything in a jaundiced light. "I'll tell it," he cried, "to the world." But Sterne gently counselled him to tell it to his physician.

W. Z. RIPLEY: Mr. Emery asserts that the members of the Stock Exchange are nothing but agents for outside speculators, and that the Exchange in its corporate capacity performs no commercial function. Is this strictly true? Are there not, for example, two acts of the managers of the Exchange at least which directly affect the public, such as the admission of securities to trading and the striking of them from the list? Has not the power and influence of great bankers and Stock Exchange leaders at times in the past been responsible for the admission of securities without as great publicity as to the standing of the company as was required of others, who had not that standing? Certainly an arbitrary exercise of power under such circumstances is invited. And it would seem as if such power should be hedged about by some measure of restriction. The one great safeguard is always publicity. A complete disclosure of all details as to promotion and financial standing should be required impartially. Whether, under present conditions, in absence of incorporation, this condition obtains is matter for debate.

MARKET DISTRIBUTION

By ROYAL MEEKER Commissioner of Labor Statistics re

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The American people are alarmed at the high and ever-increasing cost of living. In easting about for the true explanation of high and increasing prices, the railroads and the middlemen have been severely condemned as being very largely responsible for the undesirable condition of things. The gold supply is believed by many to have had a causal finger in the rising-price pie. The fact of increasing cost of the means of subsistence has large ethical aspects. The public quite rightly wants to know what influences have been boosting prices. If it can be shown that certain individuals or groups or classes of individuals have with malice aforethought forced prices higher than conditions of production and consumption would warrant, the American public cannot be expected to deal kindly with such persons. The increasing gold supply may be largely responsible for increasing prices, but the gold supply cannot be brought to book for its conduct,-it cannot be haled before the courts and fined or imprisoned. The people want to make somebody suffer for the sufferings they are obliged to suffer. The gold supply can't be made to suffer, so the people refuse to get excited about the gold supply and turn to the railroads and the merchants. The railroads can be brought before the courts and commerce commissions and made to suffer in the persons of their directors, officers, and shareholders. Merchants can be punished for breaking laws and they can be publicly pilloried for refraining from breaking the laws in ways which are detrimental to the public. The people are suspicious of attempts to boost freight rates and commodity prices.

This mental attitude of the public is perfectly sound. The danger lies in the unrivaled means existing to manufacture, collect, collate, and disseminate facts that are not so and the almost unlimited capacity of the public to absorb misinformation—to get things wrong—and at once to demand legislative remedies for evils that either do not exist at all or exist in different ways, degrees, and places than are supposed. I am inclined to think that the remedy for the high cost of living can be found neither in the newly created Trade Commission, the Parcel Post, nor the free public market. All these are good so far as they go and for

certain purposes. Taken altogether they may effect some slight reductions in the cost of some few articles. The notion, however, that the function performed by the middleman can be dispensed with through the Parcel Post and free public markets is nonsensical. Not even a beginning can be made toward utilizing the Parcel Post and the free public market to reduce prices without expending brains and time and trouble upon the problem of distributing commodities to consumers. The middleman may be eliminated, but the function performed by him cannot be eliminated. grocer does not come between the farmer and the consumer, then either the farmer or the consumer has to play grocer. According to the law of probability, the middleman ought to be the same kind of a man as the endman. There are dishonest middlemen, greedy middlemen, incompetent middlemen, and superfluous middlemen. just as there are dishonest, greedy, incompetent, and superfluous farmers, manufacturers, mine owners, and workmen. If war is to be declared against dishonesty, greed, incompetence, and superfluity, I am for enlisting, but I do not want any general orders to shoot at these things only when they are personified in middlemen.

If the middleman is any more untrustworthy and inefficient than any other class of producer, there must be something about the middlemanning business whereby honesty and competency are punished and dishonesty and incompetency are rewarded to a greater degree than prevails in other lines of productive enterprise. I do not believe there is any immutable economic law that compels all middlemen to lie, cheat and steal, or be competed right off the map. Selling country produce on commission, however, does subject the commission merchant to severe temptations, and too often he has succumbed thereto. If Diogenes and Aristides had been driven by force of circumstances to live by selling fruits, vegetables, dairy butter and eggs on commission, the one would never have been ostracized from the Athenian State because he was just and the other never would have begun his search for an honest man, and incidentally he would have saved himself the price of his lantern.

Hundreds of instances are cited to show the abysmal depravity of commission merchants. There can be no doubt that some commission merchants do falsify their accounts and deliberately fleece their consignors whenever they can do so with impunity. The great majority of cases, however, in which farmers have shipped produce

to commission merchants and have received little or nothing in return, are not cases of dishonesty at all. When the farmer suffers a loss on a consignment to a commission merchant, in most instances the loss is due to ignorance of real market conditions, bad packing, bad judgment in selecting and grading, poor transportation arrangements, or inability to get the products to the consumers quickly enough. When the differentials between the prices received by the farmer and the prices paid by the consumers are phenomenally large, it is generally due to the ignorance and inertia of consumers and producers coupled with the greed, timidity, and stupidity of retailers. The lack of coördination in distributing commodities is almost perfect. The resulting waste is stupendous, For example, cantaloupes were shipped last August into Washington in such quantities that commission merchants refused to handle them at all. On one day in the same month 58 carloads of peaches were dumped into St. Louis, which ordinarily can absorb about 14 or 15 carloads a day during the peach season. On one day last month 116 carloads of apples struck New York City. The market was so glutted that a shipment of apples from northeastern Pennsylvania netted the consignor only about 17 cents per bushel after freight and commission charges had been paid. During this autumn Virginia apple growers sold apples f.o.b. for the Glasgow market at \$1.25 per barrel. The barrels cost from 38 cents to 42 cents apiece. After the expenses of picking, sorting, grading, and packing are deducted there is left not more than 50 cents per barrel to pay for spraying, cultivation, overhead charges, and interest on investment.

While apple growers were thus unable to get prices sufficient to pay the costs of production, I as an "ultimate consumer" was obliged to pay 75 cents per alleged half-bushel for apples of inferior grade, poorly packed, and much bruised. The consumer was paying at the rate of \$1.60 to \$2.00 per bushel for poor apples at the time when the producer was receiving from 14 cents to 17 cents per brushel for first grade apples. The differential is enormous, but it represents waste rather than profits. Thousands of similar cases could be recited, and every such instance is set down by the farmer as another swindle perpetrated at his expense. In reality, the fault is due to a lack of coördination in our economic system, and scarcely at all to the dishonesty of individuals.

In my opinion salvation can be achieved neither by prosecution

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of commission men nor by elimination of them, but by organization of the market. If all the present generation of commission merchants were put in jail, that would not repay the losses suffered by farmers, neither would it prevent a fresh generation from opening up in the commission business. If dealing in farm produce on commission were forbidden by law, either the law would be evaded, disregarded, or declared unconstitutional, as frequently happens, or other persons would be obliged to perform the function now performed by the commission merchants. The law can effect some improvement by licensing and bonding commission merchants and subjecting them to federal inspection, thus making dishonest practices so unprofitable that there can be no doubt but that honesty is the best policy.

Nothing much worth while can be accomplished by legislation, however, toward saving the immense waste in transporting and marketing farm commodities. The only way to bring producer and consumer effectively and permanently together is through what I have termed organization of the market.

The first step to be taken is to organize the farmers into local cooperative associations. The object of these associations should be: first, to determine upon the crop or crops to be grown for shipment to market; second, to insist upon proper methods of growing the crops agreed upon; third, to standardize and guarantee the quality of the products shipped; fourth, to superintend the gathering, grading, and packing of the crops; fifth, to arrange for proper and sufficient means of transportation, handling, shipping, and terminal facilities; sixth, to bargain with railroads and other transportation companies for a freight rate that will be a livable rate for both the farmer and the transporter.

The farmers' association must obtain the fullest information as to the kind and the quantities of products that have been demanded in the past and are likely to be demanded in the future in the markets they are in a position to supply. They must secure current information on the state of the markets, the prevailing prices, and the like. An iron-clad contract is necessary to hold farmers together even for one crop season. Farmers are the slaves of their own independence. No agreement which is devoid of severe penalties for violation will be effective to prevent individual farmers from selling their crops independently of and in competition with the marketing associations to which they are indebted for trans-

portation facilities and favorable rates, and for the very market itself. The federal Department of Agriculture is doing good service to encourage the formation of such coöperative marketing associations and to promote the spirit of coöperation among farmers in every possible way. There are at present about 500 such coöperative marketing associations in existence in the United States. The infant mortality rate among these associations is gigantic, but the birth rate is even higher, so that the number is increasing at a moderate rate.

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This is but the beginning of the organization of the market. A market cannot be said to be organized if only the producers are organized. Farmers cannot be held together in organizations for the purposes of increasing the quantity and improving the quality of their products, unless the markets are organized in such a manner as to absorb the increased output and repay them for their trouble. It is not imperatively necessary that purchasers should be banded together in a Consumers' League, although such associations could be made very useful. It is necessary, however, that the so-called public service corporations of the country should be organized and conducted for the service of the public. The paying of salaries to officials and dividends to stockholders should not be the chief function of a public service transportation company.

One does not need to go very deeply into a price investigation in this country to discover the utter inadequacy and rottenness of our "competitive system" of distributing products. For example, Washington, D. C., is supplied with cauliflower from New York, cabbages from Wisconsin and Michigan, lettuce from New Orleans, cantaloupes from New Jersey, Colorado, and California, apples and potatoes from everywhere, except near-at-hand. vegetables and fruits could be produced in abundance within easy hauling distance of the city markets, and they are produced in the vicinage in limited amounts, of poor quality, and by the most ineffectual and costly methods. The farmers of the neighborhood complain that they are losing money, and probably they are. If they are not, it must be due to the almost unlimited capacity of the people to eat inedible foodstuffs and still survive, and to their very thoroughgoing ignorance of the value of either the money they spend or the foodstuffs they buy. Washington is served in exactly the same way as is Princeton, New York City, Binghamton, N. Y., Ames, Iowa, and every other city in which I have ever lived.

A few years ago the president of one of our great railways openly gloated over the fact that bananas were being shipped both ways simultaneously between New York City and Boston. Farm machinery made in New York State is shipped and sold in Wisconsin and Minnesota, while farm machinery made in Wisconsin is sold in New York, Pennsylvania, and Ohio, and the same kind of machinery made in Ohio and Pennsylvania is sold all over the country and abroad. Danbury hats are sold all over the world except in the vicinity of Danbury; the Cambria Steel Company furnishes steel bridge material for the construction work now being carried on in Chicago right under the shadow of the American Bridge Company's plant. The big mail order houses of Chicago with a sublime audacity sell their tawdry wares within a stone's throw of the noble façades of New York City's Greek templesque department stores, and now these same New York stores are invading Chicago. It costs more to ship a carload of apples from northeastern Pennsylvania to New York City, a distance of about 180 miles, than it does to ship a carload of apples from Michigan, a distance of 800 miles, or even from Colorado, 1800 miles. It is useless to mention more cases of the kind so familiar to all who have had aught to do with railway rates.

All this cross-hauling back and forth around Robin Hood's barn from producer to consumer costs money. It may be a fine thing for the officers and stockholders of the railroads which do the hauling, but some one must pay for the wear and tear on railroad iron and equipment, axle grease, insurance, ice, fuel, overhead charges, and the time consumed in transit.

I do not altogether agree with Professor Ripley that every locality should be made so far as possible an independent, self-sustaining community, by penalizing long distance shipments, by means of railway tariffs based on distance. I hold rather that railroad rates should first of all be regulated (fixed, if need be) so as to render the greatest service to the public. This principle of rate regulation does not at all imply that all railway rates should be abolished and transportation be made free, expenses for conducting transportation, upkeep, and improvements to be paid out of general taxation. It does mean that if the public good requires the rates on certain commodities should be based on the postal rate principle rather than the mileage rate principle.

Of course, it is impossible to inaugurate a universal, all-embrac-

ing, flat postage stamp rate for all commodities, regardless of distance. Rates must differ as commodities differ. Even on shipments of one and the same class of commodities in the same amounts it is inadvisable to establish a postal rate for most commodities. Distance is so important a factor in the cost of transportation that it cannot be neglected, except in the case of commodities which are especially important to the welfare of the community, and commodities which by their nature are not likely to be shipped great distances. The postal rates charged for the transmission of letters and parcels by mail are justified on two grounds: first, the importance of letters and newspapers to the public, and, second, the insignificant cost of transportation as compared with the cost of collecting, sorting, and delivering. It is alleged that the costs of collection, transportation, and delivery are about the same whether a letter goes a distance of ten rods or 4000 miles. This is fundamentally fallacious. The same thing can be said as to the costs of picking, sorting, packing, transporting, and delivering a single apple or a basket of apples. What seems to be true of a single letter or newspaper becomes obviously false when we think in terms of fifty tons of letters loaded upon fourteen railway mail cars bound from New York to Chicago.

When we come to the consideration of the transportation of food products it must be admitted that it is quite as important to transport meats, fruits, and vegetables from the farms where they are grown to the consumers as it is to transport from producers to consumers the kind of missives and cultural printed matter that clog and cumber our mail wagons, post offices, mail coaches, and mail carriers. If we can neglect the proportionate ton-mile cost of transportation in the one instance, we can do so with at least equal justice in the other. For the tooth of time and icing charges put space limitations upon the transportation of beef, lettuce, green corn, cabbage, tomatoes, string beans, strawberries, green peas, etc., that do not hamper the flight of the pink-tinted, incenseladen love letters of commerce, the potent patent medicine ads., and the free and enlightened American journals, which commodities are considered of such vital importance to the maintenance of our free institutions that their production is encouraged by concealed bounties in the form of excessively low postal transportation rates. For my part, I believe food is more important to social well-being than literature, especially the literature with which the

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United States mail bags are stuffed. I would rather encourage the transportation of beef, potatoes, and cabbage, than that of Best Sellers and Lydia Pinkham's Vegetable Compound ads. mingled with lurid newspaper headlines appertaining to War, Love Lust, and Murder.

In the instances cited above and similar cases the railroads, through their rate system, actually penalize favorable geographical location. If I understand him aright, Professor Ripley would give Westchester County the first crack at supplying New York City with apples by granting rates based on distance, next Rockland County, then Orange, and so on to Wayne and Susquehanna Counties, Pennsylvania. If the apple appetite of the citizens was still unappeased, more remote regions would find it worth while to ship apples to New York City. I do not believe this is a correct principle of procedure. I believe we should strive so far as it is possible to put every community in the United States, at least, on the same footing, so far as freight rates upon perishable food products are concerned.

The object to be striven for, it seems to me, in our railway rate policy should be the public service, the feeding, clothing, and warming of the people of New York City, Boston, Chicago, Princeton, and Philadelphia. All that the farmers of northeastern Pennsylvania have a right to ask for in freight rates is an equal chance. so far as the rates are concerned, to compete with other sections of the country in the business of supplying New York City and other markets with foodstuffs. I am perfectly well aware that a universal postal freight rate on all commodities of the same class and in the same amounts is impossible for such an enormous country as ours. It would be impossible to pay the operating expenses of the existing railroads out of their income if the rates were so revolutionarily revised as to conform to the postal-rate system throughout. The railroads have been built and the country developed on quite a different plan. To be sure, the plan followed has been a perfectly planless plan, so far as any orderly development is concerned. The one central and outstanding object sought by the enterprising men who built and consolidated our railroad systems was profits to the enterprisers. They believed in state activity in business enterprise whenever state activity spelled larger profits to themselves. When state activity stood between them and larger profits, then state activity became socialism, a thing of anathema.

The Interstate Commerce Commission was an engine of the devil until the state railroad commissions became interested in two cent passenger rates and began to tinker with intrastate freight rates, since which time the federal commission has become suspiciously saintly in the view of the railroads.

Our railway magnates were no different, no more selfish, no more short-sighted in their aims than farmers, manufacturers, and mer-They guessed at rates which seemed to them suited to bring in the largest net revenue. Whenever they thought they saw a chance to increase net revenues, they gave a lower rate for the longer haul. On the same principle of the greatest profit to the smallest number, rates were fixed in other cases on a mileage basis, on the most-favored-community basis, on the most-favored-corporation basis, on the flat postal-rate basis, on the basing-point basis, on no basis at all. The result was naturally a hotchpotch of published rates tempered by rebates, personal, local, and commodity discriminations, special discounts, and special privileges that aroused the wrath of the whole country. The Interstate Commerce Commission has struggled since 1887 to straighten out the tangle. Whether we are in accord with the policies (not always consistent) of the Commission or not, we must send up a hymn of thanksgiving and praise that a national body is grappling with the million-headed hydra of railway rates. While it is impossible to inaugurate a nation-wide postal freight rate system for all commodities arranged into classes, I think it is possible to make very effective use of the postal freight rate to cut down the cost of transporting perishable foodstuffs. I believe this because the railroads already have postal freight rates in operation in many instances. and not at all infrequently they stand the mileage rate on its head and actually charge the near-by community a higher price than is charged the distant community for the identical service. As long as the railroads are actually perpetrating these rates which are alleged to be impossible, on the theory that their profits are thereby enhanced, why quibble about their impossibility?

Why not frankly proceed on the assumption that it is the business of the people of the United States to feed the people of the United States? Let us make the railroad rates on perishable farm produce, at least, uniform for carload shipments, at least, throughout the whole country. By so doing we should, so far as cost of marketing is affected by freight rates, put the Pennsylvania apple

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grower on an equality with the Michigan apple grower instead of fining him, by means of a railway tariff, for the crime of living in Pennsylvania. I see no reason why the egg, vegetable, and fruit growers of New York, Kansas, Oregon, and everywhere should not have equal freight-rate opportunity to supply the markets of Chicago, San Francisco, St. Louis, New York, and New Orleans with eggs, vegetables, and fruits. A quite substantial equality in rates on meats already exists. Where inequality of freight charges exists, it has little or nothing to do with length of haul from the distributing centers of meat products. It has to do with the ability of the local meat brokers to persuade or compel the railroads to make a favorable rate on meat shipments into the locality in question.

Enter the Carping Critic, demanding to know how the waste of hauling cucumbers from Maine to Montana and back from Montana to Maine can be eliminated by means of a postal freight rate! Easy enough. If the premiums and bonuses in the form of rates that continually dwindle as the distance increases were abolished and equal facilities were offered to all shippers who offer freight under similar conditions, the incentive to ship long distances would disappear. It requires time to transport freight. Depreciation in quality of commodities, insurance and interest charges would afford sufficient obstacles to the shipment of goods, especially perishable goods, to prevent their shipment across the continent to compete in the markets with the same products grown near at hand. Of course, information as to the kind of commodities demanded in different localities, the amount demanded, the time and duration of the demand, and the prevailing prices must be disseminated among all producers actual and potential. I do not object to buying lettuce shipped from New Orleans to Washington, if Louisiana has such superior advantages that the producers of that state can stand the losses due to time and decay and still undersell the nearer producers.

We are still only at the beginning of the organization of the market. When farmers have been taught what crops to raise, in what quantities to raise them, how to raise them, gather, sort, grade, pack, and ship them, and the railroads have been induced or compelled to fix rates on the basis of the greatest service to the public instead of the greatest net income to the railroads, we have only made a start toward bringing the producer and the consumer together.

The final step in the organization of the market is the establishment of wholesale and retail markets with adequate warehouse and cold storage equipment and steam and electric railway connections.

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The ideal arrangement of municipal markets with reference to railway tracks would enable shipments to be made from the packing plants of the farmers' marketing associations directly to the wholesale municipal markets without unloading or reshipment. Cheap and rapid means of transportation should be provided between the wholesale distributive markets and the retail markets. Retail markets should be established at convenient points most readily accessible to the working population.

The organization of the means of transportation within the larger municipalities, so as to distribute the products shipped in most economically and expeditiously to the places where they are wanted is quite as important as the growing of the produce on the farms. The street railways of all kinds should be pressed into service. If they are not properly located and equipped to distribute goods most effectively, they should be relocated or new lines built and proper equipment constructed with the idea of serving the public instead of getting as many nickels out of the public as possible. I am not now discussing municipal ownership of public utilities. If private ownership of public utilities, so much the worse for private ownership. I see no crime in the public utilizing the utilities it has created. If to do this is socialism, so much the better for socialism.

The American people are still too prone to trust to legislation to effect desired reforms. After years of disheartening legislative experimentation they still seem to have the childlike faith to believe in political and economic perpetual motion. Periodically they "arise" and vote furiously to elect a new set of reformers to enact new reform legislation and amendments to constitutions. When constitutions and laws have been duly amended the people seem to expect their latest improved politico-economic perpetual motion machinery to go on grinding out justice, liberty, equality, and fraternity to the end of time without any further attention from them. No amount of legislation will be effective toward eliminating the wastes in distributing foodstuffs until we learn to follow up legislation by demanding honest and efficient administration.

The four publicly owned and supervised markets established in

New York City during this current year have apparently shown that municipal markets may be intelligently operated under public authority in this country. These markets were established on waste lands belonging to the city at almost no expense to the taxpavers. One is located on the west side of Manhattan Island at 129th Street, the terminus of the Fort Lee Ferry, the others are located on the east side under the approaches of the bridges at 130th Street, 59th Street, and the Williamsburg Bridge. They are thus easily accessible to farmers and to consumers. Probably these free public markets do not actually supply more than one twentieth of the foodstuffs consumed on Manhattan Island alone. They have, however, reduced the cost of foodstuffs over the greater part of the area of Manhattan Island and to some extent in adjoining boroughs. The prices at the producers' stalls in these markets are said to range from 10 to 50 per cent lower than the prices in the non-competing grocery stores. Retail grocers quite naturally have opposed the free public markets. A good many retailers in the vicinity of the markets have been obliged to shut up shop. Quite a number of the more enterprising have been allotted stalls in the free public markets by the Committee of Markets. These markets are well patronized and well supervised, under the present administration. Whether the system of supervision will continue satisfactory depends on many things, the most important of which is perhaps the intelligence and interest of the Committee of Markets. The producers' stalls are occupied by bona fide producers. who have been visited by the authorities. Every stall holder knows he is under supervision. If he is found guilty of giving short measure or short change, or practising deception as to the quality of his goods, he may be summarily ejected from the market.

Somewhat despotic powers are thus exercised by the Committee of Markets, and it is easy to imagine conditions under which these powers might be abused. These retail markets must be carefully and intelligently supervised if they are to be made of any real use in reducing the stupendous waste which comes in between producer and consumer. The importance of proper supervision by the public authorities is equally great whether the markets are owned by the public or by private individuals or corporations. I am inclined to favor public ownership rather than private ownership of public markets, although the experience with public ownership of markets has thus far been quite unsatisfactory. The

unsatisfactoriness is due to the lack of intelligent interest in markets and food prices on the part of the public.

The problem of supplying Manhattan with food is relatively simple because the Island is so narrow and surrounded by deep water, making it possible to supply every part of the borough by boat. In cities that do not possess waterways and water transportation facilities the street railway lines should be used to dis-

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tribute commodities throughout the city.

I very much doubt if the Parcel Post can exert any appreciable influence upon prices, unless the service is freed from many hampering restrictions that now encumber it. With the most favorable legislation, the usefulness of the Parcel Post in reducing the cost of living is strictly limited. Unless we are willing to enlarge the size of the parcels to carload and trainload dimensions, the Parcel Post will labor under the enormous handicap of trying to supply tremendous wholesale demands for thousands of tons of provisions by means of trifling little five pound retail packages. It is inconceivable that any system of transportation can stand up under the strain of handling any considerable traffic in detail in this manner. Besides this insuperable difficulty, consumers can never be induced to purchase to any great extent by the pig-in-a-bag method offered through the Parcel Post. A good many people of Washington have purchased directly from farmers just once. After one experience they declare that if they are to pay store prices for bad, broken eggs, inferior apples, ancient poultry, and diminutive potatoes, they prefer to pay them to the stores. There is a chance that a storekeeper will make good an inferior lot of goods purchased from him or refund the purchase price; there is no chance for recovery from the honest but elusive farmer. As soon as the farmer has established a reputation for excellent goods, his entire product will be demanded by wholesalers or retailers, so that he can no longer afford to sell in trifling lots to consumers direct.

No single, simple remedy will be sufficient to reduce appreciably the wastes of distributing commodities to consumers. The business of marketing is so complex and difficult that it will demand the earnest and constant efforts of intelligent men, if unnecessary wastes are to be eliminated.

MARKET DISTRIBUTION

By L. D. H. WELD

The University of Minnesota

Marketing is a part of production. It has to do with the creation of time, place, and possession utilities, whereas manufacturing has to do with the creation of form utilities. In discussing the problems of production, economists have usually had in mind primarily the manufacturing end, and they have drawn their illustrations of division of labor, large-scale production, organization of industry, etc., from this field. Likewise agricultural economists have given their attention principally to crop-growing, or as some unfortunately call it, the "production" end of agriculture. It is true that some economists have sought to point out the application of general economic principles to mercantile organization, but never in such a way as to throw light on the present system, or to point out its weaknesses.

And yet that part of production which is covered by marketing is extremely important as compared with the manufacturing or crop-growing process. A comparison of factory or farm cost with final retail price of almost any commodity will prove this. Economists agree that they have neglected this branch of their subject, but few realize either the alluring fields for research which offer themselves, or the serious consequences that their neglect has brought about. As it is today, the whole system of marketing farm products stands condemned in the eyes of the public. The great majority of people believe that there is something radically and fundamentally wrong. In the agricultural parts of the country there is nothing that stirs up enthusiasm so much as fiery denunciation of present marketing methods. Many extravagant and misleading statements have passed unchallenged and have been spread broadcast throughout the country. Things have come to such a pass that in some of our agricultural states a college professor who finds anything sound or justifiable in the present marketing organization runs the risk of exciting serious adverse criticism, and even charges that he is "in league with the interests." Do the generally accepted principles of economics, if applied to this subject, reveal any such fundamental weaknesses as are supposed to exist, or rather do they result in a justification of the present system? It is high time that we undertook to answer this

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Much help may be derived from an application of the principle of division of labor and specialization to the marketing process. Farm products, in passing from farmer to consumer, normally pass through the hands of certain middlemen, who may be classed roughly as local buyers or country shippers, transportation companies. one or more classes of wholesale dealers, and, finally, retailers. The need of the local shipping unit, in order to consolidate small contributions of individual farmers into car lots, to furnish storage facilities until time of shipment, and to establish trading connections with city dealers, is apparent. It is the link or links between country shipper and the retail store that many people have in mind when they say that there are too many middlemen.

The need of wholesale produce distributors may best be demonstrated by a consideration of the reasons why country shippers do not and can not generally sell their goods direct to city retail

stores. These reasons are as follows:

1. To procure the greatest economy in local shipment, the quantity sent at one time is too great for most retailers to handle. Retailers carry a large variety of products, and storage facilities for handling large units of various commodities are out of the question. Goods would have to be sent in small allotments, and retailers would have to obtain these small allotments from a great

variety of sources.

2. Shipments from local units vary in quantity from shipment to shipment and for different times of year. The city supply of many commodities comes first from one producing section and then from another. The city retailer must be able to buy from day to day in order to correlate his supply with his demand. Furthermore, the shipments from the country at one period will be insufficient, whereas at another period they are much greater than retailers can absorb. This surplus must be carried by a separate class of middlemen from the period of surplus production to that of insufficient production.

3. The quality of commodities sent by a country shipper is very variable, whereas each retail store has a fairly definite class of trade and must have goods of fairly constant quality.

4. Business relations between country shippers and retail stores are difficult to establish, and once established are difficult to maintain.

5. Retailers are notoriously "slow pay." Even wholesalers, who are in close touch with city retailers, have their difficulties in making them pay for goods within a reasonable time. Country shippers cannot afford to wait for their money, because they must be paying cash for goods as they are brought in by farmers from day to day. This one obstacle is almost enough in itself to prevent direct selling from country shipping unit to retail store; at least it has been the reason why innumerable attempts at such direct sale have been given up.

These reasons suggest the functions of wholesale dealers. These functions are not generally understood; they are much more difficult to perform and require a much greater degree of organization and business ability than most people realize. Frequently they will be subdivided among two or three different sets of wholesalers, as, for example, a commission merchant, handling goods on consignment, and a wholesaler or jobber; or a wholesale receiver who buys outright, and a jobber who sells to retail stores. In fact, it is safe to say that the great bulk of farm products arriving in our large cities passes through the hands of at least two such classes of wholesalers.

For example, a large proportion of the butter made in the 800 creameries of Minnesota is marketed in New York City, passing first through the hands of a wholesale receiver, and then through the hands of a jobber. The wholesale receiver specializes in the solicitation of shipments from country creameries in Minnesota. the financing of these creameries by allowing them to draw drafts on day of shipment, the handling and storage of large lots of butter on arrival in New York, and the rough sorting out according to quality. These functions naturally constitute a business in itself. The jobber performs an entirely different set of functions: he buys from the wholesale receiver in round lots of say from twenty to fifty tubs at a time; he sends salesmen around to innumerable stores in New York to find purchasers; he sells one tub at a time, selecting just that quality of butter which he knows each retailer, or delicatessen, or restaurant, or hotel, or steamship company wants; he delivers the one tub at a time to various parts of the city; and he very largely finances the retail stores by giving them credit, and undertakes the necessary accounting expenses and losses incident to dealing with scores of small retail shops. All of these many functions now performed by the receiver and the

jobber may be performed by one firm,—and sometimes they are,—but it has been found economical to subdivide these various steps among two different sets of middlemen for a large proportion of the trade, each set specializing on one particular class of functions.

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Economists have been fond of praising the minute division of labor in the packing plant, the shoe factory, etc., and also the high degree of specialization of industrial plants, whereby one makes pig iron, another makes steel, another structural forms, etc. Often the same men who praise the economies made possible by this "age of specialization," when they hear that there are middlemen called local buyers, commission men, brokers, jobbers, etc., hold up their hands in holy horror and exclaim that there are too many middlemen. Possibly there are in some cases, and yet in still other cases the cost of marketing might be reduced by adding more middlemen. While studying the wholesale produce trade in New York City last summer, I found butter jobbers who were cutting up butter that they had bought from wholesale receivers into onepound prints. I told them that I could add two middlemen to their present system of marketing, and reduce the total cost thereof: first, that it would be cheaper to have their cutting done for them by other firms who could keep their machinery and skilled labor constantly employed in cutting prints; and second, that they could save on their delivery expense by turning this function over to a centralized or cooperative delivery system, which would eliminate the vast duplication of delivery equipment and constant covering and recovering of the same ground by a hundred different

There appears to be no reason why this specialization argument should not apply to the creation of time, place, and possession utilities in the marketing process as well as to the creation of form utilities. Furthermore, it should be remembered that the present organization of the wholesale trade is not a rigid and arbitrary system. The various dealers in the main are keen competitors, and there are certain adjustments and readjustments going on at all times. The members of each class of wholesalers are constantly experimenting (unconsciously perhaps) by undertaking the functions of other wholesalers and overlapping into their fields of activity. Sometimes this sort of an experiment results in the dealer's falling back into his original and more specialized field, and sometimes it results in successfully combining several functions,

especially when done on a large enough scale,—thus resulting in what we may call integration of marketing processes, just as we speak of integration of industry. In other words, this economic justification of the present system of minute subdivision furnishes no reason for objecting to, or for not seeking out, more economical combinations of functions any more than a shoe manufacturer would hesitate to install a machine which would combine the operations now performed by three or four different workmen. The chain store may perhaps be considered such a machine in the merchandising field, because in marketing farm products it takes over the functions of the jobber, and to a certain extent of the wholesale receiver, with certain resulting economies.

Since there appears to be ample economic justification for the subdivision of the merchandising process into several successive steps, it would not be surprising to find that some commodities that pass through the hands of several middlemen are marketed on smaller spreads between producer and consumer than are other commodities that pass more directly from producer to consumer. It would be a simple matter to furnish innumerable examples of this. In other words, the cost of marketing commodities does not depend on the number of middlemen involved; rather it depends on certain characteristics of the commodities themselves. A great deal is said about the great waste in marketing as evidenced by the wide spread between producer and consumer. Some say that the producer gets 46 per cent of the price finally paid by the consumer; others put it as low as 35 per cent. Even if the correct figure could be determined, it would be of little significance, because it gives no idea of the great variation in cost of marketing different commodities, a fact which has been commonly overlooked in discussions of this subject.

The proportions of Minneapolis retail prices received by Minnesota farmers for various commodities as computed in February, 1914, were approximately as follows, expressed as per cents of the retail price received by the producer:

¹The term "jobber" is used here to mean that class of the wholesale trade which sells to retail stores, as described above in connection with the marketing of butter in New York City. The terms "commission man," "wholesaler," and "jobber," are often used indiscriminately; although they have fairly definite meanings, in some trades and in some cities.

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Butter				772
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Live-stock				58
Potatoes Chickens	* * * * * * * * * * * * * * * * * * * *			55
Milk				45
Milk	T			371/2
Wheat through	flour alone	******	*******	90
through	flour and other	nead	* * * * * * * * *	83
, mongh	nour and other	products		64

Although these figures were compiled in Minnesota, they represent very closely the conditions in other parts of the country. At least, they give a good idea of the variation in cost of marketing different commodities, which is the object of their use in this place. If such commodities as apples, asparagus, lettuce, etc., were included, the proportion received by the farmer would be much less. The California cantaloupe grower, for example, receives less than 20 per cent of the price for which his cantaloupes sell in New York City. The principal reasons for this variation in cost of marketing are as follows:

1. Perishability. The more perishable a commodity is, the greater the cost of marketing. This is the principal reason for the wide spread on such articles as strawberries, cantaloupes, lettuce, etc. In the case of other commodities, such as butter and eggs, perishability is largely overcome by cold storage.

2. Regularity or irregularity of supply throughout the year. The more evenly distributed is the production of a commodity throughout the year, the less it costs to market it. Although butter and eggs are produced in greater volume during some seasons than others, the fact that they are produced to a certain extent at all seasons undoubtedly reduces their costs of marketing.

3. Waste and shrinkage. Closely allied to the question of perishability is the extent to which products are subject to damage breakage, or shrinkage in transit, in storage, or in preparation for market. Breakage is an important factor in egg marketing; shrinkage in poultry marketing.

4. Volume in which product is handled. For those commodities that are handled in greatest volume the facilities for marketing have become more highly developed. To say nothing of superior transportation facilities, efficient cold storage plants aid in the

² Represents proportion of retail price received by country creamery.

marketing of poultry and butter; special loading and unloading machinery and highly efficient terminal elevators in the marketing of grain.

5. The extent to which a commodity may be subdivided into well-established qualities or grades affects the cost of marketing. There is a well-recognized method of "scoring" butter which facilitates its handling. Grain is subdivided into such universally accepted grades that it is often bought and sold by merely naming the grade or at least by inspection of a small sample. When the buyer must carefully inspect the whole of the commodity he is buying, the cost of marketing is apt to be higher. The possibility of having standard grades enables the use of market quotations, which are often used as "trading bases" and which immensely facilitate the marketing of commodities.

6. The relation between bulk of a commodity and its intrinsic value affects the importance of the freight rate as a factor in marketing. Potatoes and grain are of large bulk but of small intrinsic value, and hence the transportation charge constitutes a larger proportion of the total spread between producer and consumer than in the case of butter, which is a commodity of small bulk in relation to its value.

When these differences in cost are considered, it is apparent that some commodities are marketed on very small margins. As compared with manufactured articles in general, the great staple farm products pass through the hands of a greater number of middlemen but are marketed on smaller gross margins. who have been fond of calling attention to the wide spread between producer and consumer have dwelt on apples, strawberries. cantaloupes, celery, and other highly seasoned and perishable articles, and have failed to notice that the much more important products like wheat, butter, eggs, etc., are marketed on relatively small margins. If these staple articles were given their due weight in finding an average for all commodities, I believe that it would be found that the proportion received by farmers would be considerably higher than any figure heretofore spread broadcast by writers and speakers on this subject. From computations that I have made for Minnesota products, I am convinced that on the average the Minnesota farmer receives about 60 per cent of the price finally paid for his products. Not that the exact percentage is of any particular value in itself, but that the estimates heretofore given out are both inaccurate and misleading.

But to get to the real heart of the marketing problem, it is necessary to carry our study of marketing costs still further and analyze the gross margins between producer and consumer for different commodities into their component parts. As illustrations of this kind of research, I present an approximate analysis of marketing costs for two different commodities: Minnesota butter marketed in New York City, and Minnesota poultry marketed in Minneapolis:

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APPROXIMATE AVERAGE COST PER POUND OF MARKETING MINNESOTA BULK BUTTER IN NEW YORK CITY

Farmer receives for 5/6 lb, of butter fat 25	ents
Cost of manufacture in creamery	
Freight and cartage to New York	
	0.5
Jobber's gross margin	.5
Retailer's gross margin	
Price paid by consumer	5.0

This varies of course with the different channels through which butter passes. Since butter is often used as a "leader" by grocery stores, the retail margin is often less than five cents.

APPROXIMATE AVERAGE COST PER POUND OF MARKETING CHICKENS FROM MINNESOTA FARM TO MINNEAPOLIS CONSUMER

MATERIAL AND	Cer
Farmer receives	9.1
Transportation (by express)	1.4
Feeding	0.9
Killing labor and expense	0.
Killing loss in shrinkage	1.0
Packing	0.
Storage, interest, and insurance (3 months)	1.
Wholesaler's gross margin (overhead and delivery	
cost and profits)	1.5
Retailer's gross margin	4.
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From analyses of this sort, certain important facts are brought out: (1) The part played by transportation costs is almost insignificant when considered as a proportion of final retail price. It has been estimated that on the average freight charges do not constitute more than 5 per cent of retail prices. Numerous computations that I have made for different commodities appear to

roughly confirm this estimate. The thought in this connection is that possibly a disproportionate amount of attention has been given to transportation matters. (2) On the whole the margins taken out by the wholesale trade are also very small in view of the important functions performed. The net profit per unit of goods handled is so slight that it is only on a large volume of business that a wholesale produce dealer can make profits commensurate with those expected in other lines of production where equivalent amounts of capital, ability, and risks are involved. (3) The most important single portion of the total spread between farmer and consumer is that taken by the retailer. In fact from a large number of instances I have found that of the total spread between producer and consumer the retailer takes on the average nearly one half. In other words, the slice taken by the retail store on the average is nearly as large as the slices taken by local buyers. railroads, and wholesalers combined. This state of affairs is of course due to the high costs of retailing and not to the high profits of that branch of distribution. It also suggests that perhaps the greatest opportunity for economizing in the marketing process is to be found in the retail field. It is the high cost of retailing that has undoubtedly made possible the development of cooperative stores in other countries, and to the development of the mail-order house and the chain store in this country.

When the statement is made that there are too many middlemen, it may mean one of two things: either that there are too many classes of middlemen, that is, too many successive steps; or that there are too many of each class, that is, too many wholesalers, or too many retailers. While the splitting up of the marketing process into a number of successive steps is largely a question of division of labor, as already pointed out, the question as to whether there are too many of each class is at least partially one of large-scale production, although other considerations are also involved. In the wholesale trade, we already have relatively large business units. In the retail trade, on the other hand, there are innumerable small stores scattered all over our large cities, and it is this fact that is so frequently condemned by those looking for a solution of the marketing problem.

The subject of retail distribution is only beginning to be subjected to scientific study, and it is perhaps too early to come to any very definite conclusions as to the efficiency or possible im-

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provement of the present system. There are two or three facts. however, that are worthy of consideration in this connection. Assuming that the cost of retailing would be lowered by eliminating the corner grocery store and concentrating the business in a few large stores, there appears to be no very practical way of bringing this about. As long as men (or women) with no experience in merchandising can eke out an existence by establishing and living in their little stores and delicatessens; as long as wholesale grocers and produce dealers will extend credit to such individuals: and as long as enough people will do at least part of their trading with the neighborhood store, just so long will the little corner grocery remain in existence. Second, it is not at all certain that greater concentration of the retail business would result in any lower cost of doing business, because I believe that it has been shown that in the large stores, located in the heart of the city. the cost of doing business is higher than in the small corner grocery. This is due partly to the fact that certain fixed charges like rent increase in greater proportion than sales, but more to the fact that these stores furnish superior and more expensive service, the demand for which, on the part of consumers, is also growing faster than their purchasing power.

Another consideration of interest in this connection is the manner of distribution adopted by the chain store, which is the most important recent development in the retail grocery trade. In Philadelphia alone, there are nine chain-store companies with a total of 1260 grocery stores. It is claimed that they do over half of the retail grocery trade in the city. The chain store is an example of large-scale production in merchandising. It makes its economies through buying in large quantities; standardization of methods, store equipment, and products handled; saving in delivery and advertising; and saving of interest and losses by doing a spot-cash business. But the significant feature of this system is that it distributes not through large, centralized, retail stores, but through innumerable small stores scattered throughout the city

and even in the suburbs.

It may be considered by many that the arguments used up to this point appear to justify the present system of market distribution almost in its entirety. I have purposely refrained from alluding to the weak spots in the system, however, because I feel that in order to obtain a sane view of the problem, it is necessary for us to obtain a clear conception of fundamental propositions herein set forth. Enough has been said perhaps to lead to the conclusion that there is ample economic justification for the fundamentals of present-day market organization, and that the solution of the marketing problem lies not in revolutionizing the present system, but in ferreting out its weaknesses, and applying remedies to cure these weaknesses.

There certainly are defects in the marketing system, just as there are in our manufacturing and agricultural systems. These weaknesses can be discovered only by painstaking intensive studies of the methods and costs of marketing each farm product in turn, because where there is weakness in marketing one commodity there is strength in the marketing of another. Although research in the field of marketing has not gone far enough to point out all the shortcomings of the present organization, certain weaknesses have been unearthed, many of which are not recognized by most of the casual observers who have expressed opinions with regard to the present system.

It is convenient to classify the defects of the present system under four heads as follows:

- 1. Those connected with marketing at country shipping points.
- 2. Those connected with the transportation system.
- 3. Those connected with the wholesale trade.
- 4. Those connected with the retail trade.

In discussing these weaknesses, I shall confine myself to those connected with marketing at country points, and with the wholesale trade. The principal weaknesses of the system of marketing at country points are as follows:

- 1. Careless packing and lack of uniformity in packages.
- 2. Insufficient attention to quality of goods, to sorting before shipment, and to varieties produced.
 - 3. Poor roads from farm to country shipping point.
- 4. Lack of knowledge of market conditions and prices on the part of farmers.
- 5. Poor business management on the part of local buyers, country stores, and farmers' organizations.
- 6. Lack of honesty on the part of both farmers and local buyers,
- 7. Abuse of monopoly power when there is one buyer, and price agreements when there are several buyers.

The principal weaknesses of the organization and methods of the wholesale produce trade are as follows:

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1. Opportunity for fraud and sharp practices. The fact that local shippers often have inadequate representation in the terminal markets makes these possible.

2. Lack of adequate inspection systems. For some commodities, like grain, there are splendid inspection and grading systems, which in many states are maintained by the government. For most commodities the inspection service is either inadequate or lacking altogether.

3. Wholesale markets are often poorly located, sometimes greatly congested, and often lacking in proper terminal facilities.

4. Lack of an adequate price-quotation system. For some commodities the methods of determining quotations have reached a high degree of development, while for others they are inadequate. Also the quotation systems in some cities are more efficient than in others. This whole question of quotations is of the greatest importance and interest. Whether a quotation should be determined by actual sales on an exchange, or by the vote of the whole exchange, or by a quotation committee of an exchange, or by outside market reporters, is an unsolved problem, and practices vary greatly in different cities and in different trades. There has been much litigation with regard to the issuing of quotations by produce exchanges, and the New York Mercantile Exchange is being investigated at present by the Attorney General of New York State. One difficulty with the quotation problem is that the economic functions and value of market quotations, especially their use as "trading" or "settling" bases has never been fully recognized and understood.

5. Lack of sufficient organization and means of obtaining and disseminating market information, resulting in uneven distribution of crops among the several markets, with consequent gluts and scarcities. This weakness is greatly exaggerated by most writers on the subject, because it applies to the highly perishable and seasonal products only. In the grain, live-stock, butter, eggs, poultry, and other trades, the balancing of prices between different markets results in such an even and automatic distribution that the results can only excite our wonder and admiration.

6. Lack of standardization of methods, customs, grades, packages, trade terms, etc., in different markets.

It is only necessary to recite these various shortcomings of our present system to prove that the marketing problem is vastly complex, and that improvement can be brought about only by careful investigation along a number of lines and by the application of one remedy here and another there. The object of this paper is to state the problem rather than to present a solution, but study of the subject has gone far enough to indicate at least in a general way the nature of some of the remedies. The most important may be classified broadly under four heads: first, cooperation, meaning a type of organization owned and democratically controlled by those who do business through it; second, voluntary associations among dealers; third, government regulation; and fourth, education.

In this country cooperative organizations have developed mainly among producers, and hence have to do with marketing at country points. In some countries they have been carried to terminal markets and even into the export trade. In Western Canada, the farmers market a large part of their grain through their own organizations in the Winnipeg market. A few attempts are being made along this line in the United States, but the extent to which farmers' organizations should assume functions other than those connected with local marketing is a problem that needs careful consideration. Minnesota is far in the lead of all the other states with respect to the development of cooperation among farmers. There are now over 1000 cooperative marketing organizations in Minnesota, including creameries, which also manufacture; and in 1913 they marketed over \$50,000,000 worth of farm products. The movement has been growing so rapidly in that state that it needs direction more than encouragement.

The part played by associations of dealers in regulating and improving the marketing machinery is not fully appreciated. In many instances such associations have fallen into disrepute because of monopolistic tendencies—sometimes real and sometimes imaginary. It is safe to say, however, that the most highly organized and efficient marketing organizations in the country are to be found among our produce exchanges.

The functions performed by such organizations in furnishing market places and trading facilities, adopting rules to prevent fraud, collecting and disseminating market information, and in providing systems of inspection and grading, are invaluable to

the economical marketing and even distribution of certain commodities. Such organizations are gradually extending their fields of usefulness, and they must not be overlooked either for what they have done in the past or for what may be accomplished by them in the future.

Moreover, there are many features of the marketing system that can be dealt with efficiently only by the government itself. We already have state inspection of grain in many states, and federal inspection, or at least federal supervision, has become a live issue. We have state warehouse laws which govern the operations of grain elevators and the operations of cold storage plants. Some states have laws which provide for the bonding and licensing of commission merchants and which compel them to show their books in case of complaint. New York State has recently passed an apple-grading law, and she has also established a Market and Food Department to deal with marketing problems. Municipalities have ordinances governing milk distribution. Minnesota has adopted a state brand for butter, and other states are contemplating a similar move. Several states have passed special laws to make possible the formation of cooperative organizations. And so on. Government regulation is an important factor in the solution of the marketing problem.

Finally, education in marketing is necessary. The principles of marketing should be included in every course in elementary economics; special courses should be developed in agricultural and commercial schools; and the general public should be educated to the fact that if it requires elaborate services from retailers, it must

pay for such services.

In connection with these remedies, public markets and direct marketing by parcel post and express should be mentioned. Public markets where producers sell directly to consumers have been given more attention than they deserve, because they never can play a very important part in the solution of the problem for the following reasons: only an infinitesimal part of a large city's food supply can be grown within hauling distance; farmers who haul to market can not afford the time necessary to wait around a large part of the day to sell to consumers; a very small proportion of the housewives of a city can leave their children or their household or social duties to go to market; they are open only part of each year; and the competition of public markets can not reduce

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prices in retail stores as much as is generally imagined because people in general are willing to pay for the superior service offered by the stores. Public markets are good as far as they go and should be encouraged, at least certain modifications of them, but let us not be too optimistic with regard to their possibilities.

A similar thought might be expressed in regard to the possibilities of direct marketing by parcel post or express. The quantity of farm products so marketed is undoubtedly on the increase, but it will always be an extremely small proportion of the total volume. Several reasons might be given why direct marketing is not apt to develop on a large scale. While reading the bulletin on "Marketing Eggs by Parcel Post" recently issued by the United States Department of Agriculture, I made a list of seventeen different things that we are told farmers must do, but which they do not now do, ranging from handling their own eggs to assuming losses from breakage, in order to make a direct shipment a success. This bulletin, although written in an optimistic vein, suggests important reasons why direct marketing of eggs can not develop on a large scale.

In conclusion, let me again call attention to the fact that economists have not only neglected these problems, but that they have not even gone into the matter sufficiently to know what the real problems are. Universities in our large cities have little realized the opportunities for valuable research work in the various wholesale trades at their very doors. And I can vouch for the fact that some of these problems are also very fascinating. It is not only a matter of collecting vast amounts of empirical data; it is also a matter of solving intricate problems, most of which problems require a good sound knowledge of economics for their solution. A very few of our state universities have begun this work. The most important movement in this direction is the establishment of the Office of Markets in the United States Department of Agriculture, which has already begun just such painstaking investigations as I have suggested. The great need is to get down to the fundamental principles underlying the subject of market distribution. There is perhaps no field of economics in which the fallacious and misleading statements of uninformed writers and speakers go unchallenged by economists to such an extent. Happily the indications are that more adequate attention will be given to this important and interesting field in the future.

MARKET DISTRIBUTION—DISCUSSION

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G. N. Lauman: These papers so thoroughly illustrate a point made by both speakers that it might be suspected that the authors had counseled with each other, were there not more fundamental reasons for their agreement. They are agreed that much serious effort must be put on the study of the marketing question in order to reduce the cost of living. Mr. Meeker dwells on the cost of transportation and Mr. Weld tells us this item is insignificant. That the marketing of agricultural products has met with the same difficulties non-agricultural products have encountered is apparent. I gather from Mr. Meeker's paper that the attempts to correct any abuses, particularly those of transportation, have not been made fast enough to suit him and that their ultimate solution cannot be hoped for along the lines followed. He therefore suggests the radical postage-stamp rate of transportation as the solution.

In suggesting this service he does not seem to realize that he is tampering with natural conditions on the one hand, and that on the other hand he proposes to compel the farmers adjacent to the large centers of consumption to produce all that these centers need, particularly of perishable products. How much of the yearly family budget is involved in the cost of highly perishable products? Flour, eggs, potatoes, beans, peas, apples, butter, excluding milk, and meat comprise the main items. Cauliflower should be grown around Washington, according to Mr. Meeker, of the same grade as that of eastern Long Island. Nature for the most part and man in a lesser degree provided that the development of cauliflower growing in this country should be otherwise. Agriculture the world over is constantly adjusting itself to national and international development. If we see any definiteness in this development, it is that everywhere the natural forces are being depended on more and more because these are the cheapest elements of production. Added to this, the constantly cheapening cost of transportation ought to give, theoretically at least, a practical solution of our problem in so far as it depends on these factors. Mr. Weld points out that the great staples and less perishable products are handled with less cost between the producer and consumer than the more perishable products. May it not be that our chief difficulties lie in just this field? It is here that the organization of the producers, with a complete system of

information, can work to good effect for both producers and consumers. There must always be greater differentials and variable prices in the more perishable products than in those capable of storage. The speculator and the commission man have here their greatest opportunities.

I am not convinced from these papers that the problem of the middleman is not very bad. Mr. Weld argues in one instance for more of them. May it not be that the East has more trouble with this question than the West; that the older the community the more likely it is to have a greater development of the unnecessary middleman? Mr. Weld does not cite extreme cases, yet many such could be cited, and the burden became so great in just such cases that the producers were finally driven to drastic remedies. No better case could be cited than in the adjoining New Jersey county of Monmouth, where the producers have successfully eliminated four middlemen and in a few years have taken over business running into the millions.

With the problem of public markets, where the ultimate producer and consumer are to meet, we come face to face with much irrational and radical suggestion, particularly from the cities. In the present trend of development of society, it does not seem to me that we can eliminate the corner grocery or its equivalent. It saves time if nothing else. It is constantly available to supply our wants, it even grants us credit to the next pay-day. Will the public market do this and more? The public market with proper storage in the large centers may be a cheaper solution of the problem of supplying the ultimate middleman. The public market reaches but a small number of the population. The tendency in growing cities with public markets is for the producer to be replaced by a middleman supplying his needs from the constantly increasing produce yards or docks of our great transportation companies. To me the present solution of this problem is either the chain-store system or consumers' coöperation. One has only to study the English and continental cooperative stores to realize that they are not only an economic force felt in the humblest home but a moral force without a parallel in such combination.

Mr. Weld has pointed out the already great significance of cooperation among producers in Minnesota. The hope of the farmer in this problem of better prices for his products lies in cooperation with his associates similarly situated. Though perhaps not a model in all respects, yet the history and development

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of the California citrus growers organization show what can be done by enlightened leaders and business men who are producing a product which must be marketed more than a thousand miles away. It may be true that in Minnesota less encouragement and more direction is needed with these cooperative organizations, yet in the vast majority of states education in the principles and methods of coöperation is greatly needed not for the purpose of creating mushroom organizations, as is done in a state not 200 miles away, but to prepare the ground that the people shall when necessity demands be able to develop an indigenous organization, and not one led by an officeholder at Trenton or Annapolis or Albany. The high death rate of these organizations pointed out by Mr. Meeker is due to the insufficient basis, economic, educational, and moral, upon which they are founded. The difficulties are aggravated by the very quality developed by agriculture which in other respects is so admirable—that of independence.

To me a stronger showing up of the farce of expecting the parcel post to solve this great marketing problem would have been welcome. The deliberate attempt made by government press bureaus to mislead the general public seems almost to indicate some other motive than pure public service. A study of the results of the parcel post in Europe shows that for very limited quantities of (as a rule) high grade products for a special trade the post office can be an aid.

Both papers have pointed out the need of state and federal aid in solving marketing problems, and both have shown the weaknesses here to be encountered. As we read the history of coöperation where it has been most successful, we realize how much has been done by the people themselves without government aid and even in spite of governments. The result has been, particularly in consumers' coöperation, that they have successfully kept down the cost of living and under war conditions have steadied prices, particularly in England. If we are to have a development of coöperation in this country, let us hope that it comes from a deep and conscious desire to solve our own problems with as little government aid as possible.

Selden O. Martin: It is gratifying to see the subject of Market Distribution on the program of the American Economic Association. It is none too soon. For seven years the course

on marketing in the Graduate School of Business Administration of Harvard University has been considered pivotal by the faculty of the School, many of whom are members of this Association.

The title of the course has evolved from first "Economic Resources of the United States," to next "Commercial Organization-Domestic," and finally to the present title of "Marketing," just plain marketing, the buying and selling of things. But from the first, under whatever name, problems of marketing have been the center of interest and study in the School. The making of things and the buying and selling of things are the two great central functions of business. All other activities of business—transportation, banking, accounting, whatever they may be—are functions auxiliary to these main functions. With the present-day operation and correlation of these functions I believe every economist should be acquainted.

In a note for the American Economic Review for December, 1913, on the Harvard Bureau of Business Research, I ventured to say that from the point of view of the economist business might be called applied economics and that the movement at Harvard for research in business was but a part expression of the feeling, among the younger generation of economists at least, that much more inductive study of present economic processes was desirable before further large constructive work in economic theory was attempted. Really the business man and the economist are studying the same subject, though their points of view are different. The business man is interested in results and consequently in the mechanism that produces the results. The economist is interested in the reasons for the mechanism and the results. But is not his appraisal of reasons apt to be more accurate if based on an intimate knowledge of mechanism?

Dr. Meeker in a broad deductive way has attacked the existing organization for marketing. But he has also very properly pointed out difficulties in certain stock reforms suggested. Dr. Meeker has also emphasized as a step toward solving the marketing problem reform in transportation service and rates. There is undoubtedly room for improvement in the transportation of commodities, but after all even the present transportation cost is but a small part of the final price of the commodity. Dr. Weld in his thoughtful paper reports that the transportation cost of a pound of butter from Minnesota to New York, where it sold for 36 cents, was 1½ cents. This is 4.2 per cent of the price paid by the

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Local transportation charges commonly known as delivery expense are usually a greater cost than the common carrier charges, but even in groceries has seldom been encountered a delivery expense greater than $3\frac{1}{2}$ per cent. There is a department store in an unusual situation the delivery expense of which rises to $3\frac{1}{2}$ per cent, but this is exceptional.

Dr. Weld's paper is suggestive not only in its content, but in the inductive method employed in piecing together facts from actual marketing operations. The general conclusion I gather from his paper is that the present organization for marketing is not accidental or parasitic. There are reasons for it, but it can probably be improved. The result of detailed study of individual commodities and methods of distribution will show where the present system may be improved. It is not likely that such study will indicate that remedy must be found in any destruction of existing facilities or their radical reconstruction. Those who have most thoroughly studied the problems of market distribution must concur in this program of intelligent adaptation. It is somewhat surprising to note Dr. Weld's statement that universities in our large cities have little realized the research opportunities at their very doors, and that but a very few of our state universities have begun the work. He makes no mention whatever of the work done by Harvard University in its research on the marketing of shoes and groceries. Nearly four years' work in contact with over 9000 members of each trade, shoe and grocery, in 28 states and Canada, the employment of 14 field agents in the last four summers, would seem to warrant the addition of at least one nonstate university to the marketing research list.

Dr. Weld, however, was doubtless unconsciously thinking of research in the marketing of food products from the producer to the consumer, whereas the Harvard research has been almost wholly on the marketing of manufactured products from the manufacturer to the consumer. The Bureau of Business Research at Harvard

welcomes the opportunity to advise and to coöperate with similar research organizations which are coming into existence. Indeed, already it has enjoyed that privilege and trusts that it may serve a further movement toward coördination of effort in this most attractive field.

The field of marketing may be said roughly to have two main divisions, one on the side between the producer of raw material and the manufacturer, and the other on the side between the manufacturer and the ultimate consumer. Notable illustrations of research work in the first division are the egg bulletin of the University of Minnesota and the cheese bulletin of the University of Wisconsin. These food products are largely of the nature of raw materials and the consumer occupies a position in a rough way relative to that of a manufacturing user. The Harvard work has been almost entirely in the division of marketing between the manufacturer and consumer, and so far chiefly with the retailer, although now in shoes work with the wholesaler and with the manufacturer with or without a stock department is being done. The marketing of the hide from the cattle owner to the tanner, and to the shoe manufacturer, a great and important subject, has not been touched yet. In the study of the marketing of groceries, just begun in a large way last June, the Bureau may be sent back eventually in some degree to the original producer, although it is groceries that are being studied, provisions and dairy products only as they are carried by grocers.

A figure or two shows the field for study between the manufacturer and consumer. Forty per cent of the price paid for a pair of shoes is consumed in getting the shoes from the manufacturer to the consumer. Seventy per cent of the \$1.50 paid for a certain scientific book does not reach the printer of that book. Similarly figures varying from 35 to 70 per cent could be given for clothing, hardware, and drugs.

Where the risk, be it of style or perishability, is less, the difference between the producer's price and the consumer's price is less, but even in groceries this difference ranges from 25 per cent to 40 per cent of the consumer's price. Whatever its explanation, the fact remains that between the manufacturers and consumers of many commodities a sum equal to from 30 to 40 per cent and more of what the consumer pays is added to the manufacturer's price. It was to explore this 40 per cent on shoes that work began with the shoe retailer in 1911. This work has already been

described in the AMERICAN ECONOMIC REVIEW for December, 1913, and still more fully in the Bureau's Bulletin Number 1, of May, 1913.

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Dr. Weld found that 14 per cent of the final price of his pound of butter and 20 per cent of the price of his pound of chicken went to the retailer, and states that in general his investigations show that the gross profit of the retailer is nearly as large as all the intervening gross profits combined—in shoes it is much larger—and that this gross profit is not due to the high net profit of the retailer but to his high operating expense. This is also supported by the Bureau's experience in shoes. This does not seem necessarily unnatural, since possibly as in physics as the pipes of distribution become smaller the friction may increase geometrically.

The most important part of the results of the shoe research yet published is summarized in the following figures, which, though first based on the records of 130 retail shoe stores, were later not materially affected by returns from 650 stores in 26 states and Canada.

Summary Table of Important Figures from the Retail Shoe Business. (Net Sales = 100 per cent.)

Item	Lowest per- cent- age	Highest per- cent- age	Percentage about which data center (not an average)	Percentage about which a concentration is sufficient to indicate a real- izable standard
Gross profit, including discounts	20	42	Low grade 23-25 High " 30-33	
Total operating expense not including freight and cartage or interest	18	35	Low grade 23 High grade 27	Low grade 20 High grade 25
Buying expense. Salesforce Advertising Deliveries Rent Interest	0.8 5.0 0.0 0.0 1.8 1.0	1.8 10.3 8.8 1.4 14.6 7.9	1.1 8.0 2.0 0.6 5.0 2.5	1.0 7.0 1.5 0.4 3.0 2.0
Stock-turns, a year Annual sales of average salesperson	1.0	3,6 \$16,500	1.8	2.5

The first two columns show the range in certain important figures of operation, the third column the mode of the whole group for each figure, and the fourth column the mode for an efficient

group large enough to be significant.

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It is seen that the gross profit ranges from 20 per cent to 42 per cent of the price to the consumer but centers about 23 to 25 per cent according to the grade of shoes sold. The total operating expense ranges from 18 per cent to 35 per cent, but centers about 23 to 27 per cent according to the grade of shoes. The true net profit was found to be surprisingly low. It frequently became a minus item when proper charges were made for interest and proprietor's time. The four items—salesforce, rent, interest, and advertising—comprise from two thirds to three fourths of the expense of the ordinary retail shoe stores. Other items are discussed in Bulletin Number 1. Two more significant items may be mentioned here—the annual sales of the average salesperson and stock-turn.

The annual sales of the average salesperson is one of the first tests of efficiency of a retail store. In the retail shoe business in a city of more than 100,000 population the average salesperson should sell \$10,000 worth of footwear, at retail selling value. It has been surprising in other businesses to find this holding approximately true, whether the average unit of sale is 20 cents or two dollars. Where the rent is absolutely high, the sales of the average salesperson rise in accord with good Ricardian doctrine. For example, in great business thoroughfares like Broadway an average annual sales per salesperson of \$16,500 was found, but this did not prevent the rent percentage from rising as high as 12.

Incidentally may it be said here that no apparent connection has been found between rent and advertising as some have argued. High rent percentages with low advertising percentages have been encountered, but in no marked degree more than high rent percentages with high advertising percentages.

The number of stock-turns in the retail shoe trade has been found ranging from one a year to 3.6 times, but centering about 1.8 times a year—surprisingly few. In the retail grocery business the number of stock-turns ranges from 12 to 20. There seems little question but that there has been a marked decrease in stock-turn in the retail shoe trade in the last seven years, and that this

is chiefly due to an increase of styles especially marked about 1908, when shoe manufacturers whose output became suddenly curtailed by the crisis of 1907 sought to increase their market by creating and pushing specialities. So sure about this does the Bureau feel that in the revised schedule for shoe retailers question 17 reads: "Give an approximate idea of the number of lasts and styles you carried your first year ; in 1907 ; now"

Increasing styles, lower stock-turn, increased capital, greater depreciation cost, mean higher operating expense. Shoe retailers with well operated businesses today claim to have operated at an expense of less than 10 per cent in the 80's. So confident is the Bureau that they cannot operate under 18 per cent now that our standing instructions to our field agents this last summer were to investigate carefully any operating expense under 18 per cent, first on the ground of error, and if no error was found then by all means to record the methods employed. A few were found.

Coöperative buying associations of retailers operating as wholesalers in both the shoe and grocery trades have been encountered. One such shoe association, which impressed us as being particularly well managed, was yet unable to purchase more than 40 per cent of the supply of any one of its members at wholesale rate because of the difference in the local market of each member.

A similar successful cooperative association of retail grocers by no means furnishes the equivalent of wholesale service to its members. Each has to pay cash, and to do his own delivering.

Much of the higher cost of living is undoubtedly due to better living or fancied better living, be it in the form of greater variety, change of styles, service, or what. We will not carry our packages again, or cease to order by telephone in any general way, any more than we will go back to the spinning wheel and candle. Such is not the teaching of economic history.

Still the fact remains that right in the present system of marketing has been discovered a variation of 17 per cent in the operating expense of retail shoe stores, and a variation in gross profit, which is cost to the consumer, of 22 per cent. A part of increased retail efficiency seems to go to the consumer in reduced prices, although it is hard to say in what degree. An improvement possible then in the marketing organization (and I agree with Dr. Meeker and Dr. Weld that there is no one reform) would seem to be in the retail end. What is the most efficient

practice for a retailer? Shall he buy from more or fewer sources? Shall these sources be manufacturers or wholesalers? How much stock shall he carry? How shall he determine it? In other words, cannot retailing be made more scientific and economical?

The figures so far published by the Harvard Bureau of Business Research has been preponderantly from cities. Furthermore, stores have not been sufficiently classified by kind. With the profit-and-loss statements of coöperators for January and February in, it is hoped there will be enough data to warrant tabulations on three main bases—the grade of business, the population of the community in which the store is located, and the annual net sales. Figures from over 200 chain stores, as well as those from department stores, will receive separate treatment.

These tabulations are expected to bring out some important facts. It is advanced in an entirely tentative fashion that they will show the small unit in retailing shoes to be the most efficient. It is likely to appear that a shoe store with yearly sales of about \$50,000 may be the "representative firm," and furthermore that it is likely to be a one-store business. Department stores and even chain stores are not expected to make so favorable a showing.

In communities of less than 100,000, the rent percentage is expected to be distinctly less. Low grade businesses will show a still more marked reduction in operating expense as compared with high grade businesses. In the work now in progress with shoe wholesalers and manufacturers, some manufacturers who sell both through wholesalers and directly to retailers fortunately carry their stock department for retailers as if it were an independent wholesaler, so that valuable comparisons can be made between the costs of these respective methods of marketing. The grocery research began with retailers last June, and the introduction of a uniform system of accounts for retail grocers is proceeding. Already most striking differences between the grocery trade and the shoe trade are appearing in the figures and other data furnished.

This tremendous field of inviting research has been scarcely touched. A university is ideally suited for doing this work, because of its non-competing position and scientific attitude, and this is becoming more and more the opinion of the business world. In such a vast field there should be no duplication of research by government or universities, and furthermore such research as is done should dovetail with other research. To this end the Har-

vard Bureau of Business Research has corresponded with universities, and with federal and state bureaus which have inquired about the work, some of which are contemplating similar work, and has offered them the results of its experience. The Bureau has suggested that whoever goes into this research work intensively will need an accounting system, and for the sake of uniformity the Bureau hopes that its system of accounts will be considered, so that if possible the published results of all such research can be more accurately compared.

ARTHUR E. SWANSON: Mr. Meeker's contention that our present transportation system with its community discrimination involves waste is valid, but I do not believe that such waste is a primary cause of the high marketing cost. The studies that have been made indicate that the transportation cost is small when compared with the cost of retailing and jobbing. While from 5 to 7 cents of the consumer's dollar is paid for transportation, 40 to 45 cents is paid for middlemen's services.

In regard to the advisability of establishing a flat postal rate as a remedy, in the marketing of perishable commodities, I disagree totally. In the first place, Mr. Meeker shows by the conclusion to his discussion of transportation that he hopes for a result from the flat rate which can be accomplished more economically and without any radical departure in rate making by a more extensive application of the cost of service principle. He anticipates his "Carping Critic" by stating that "the depreciation in quality of merchandise, insurance and interest charges would afford sufficient1 obstacles in the shipment of commodities, especially perishable goods, to prevent their shipment across the continent to compete in the markets with the same products grown near at hand." Now, if that is the condition striven for, why have the flat postal rate? If the flat rate would actually result in the condition Mr. Meeker describes, how would the consumer be benefited? the flat rate tend to increase the cost of transportation to the nearby producer, for the reason that the rate would have to be high enough to cover the transportation cost of distant producers.

The flat rate would operate more to the advantage of the consumer than would the cost of service rate only if the distant communities could compete effectively with nearby producers without restricting the output of the latter.

¹ Page 121.

If, however, the flat rate would operate to draw goods from distant communities, it would tax the nearby producer in favor of those more distant. The effect that this would have on "community" industries is apparent.

The flat postal rate departs from the only economic principles which we have to serve as guides in rate making, namely, the costof-service principle and the principle of comparative costs. For in rate making, the application of the cost of service principle results in a proportionate application of the comparative cost principle. It is true that the cost of service has not governed rate making in the past, and that it cannot be the sole guide in the future, but I do think that the greatest economy will result from a closer and more consistent approximation to the cost of service in rate making. This would make marketing cost a part of the production cost of a community, and apply more rigidly than ever the principle of comparative costs.

Regarding the economic organization of producers on a coöperative basis, I am in accord with Mr. Meeker. Such organization of producers will facilitate the standardization of grades and packing, the coördination of supply and demand in the various markets, the dissemination of market information, and the like, all of which will tend to eliminate waste.

It will take some time, however, to organize even a small proportion of the independent American farmers in coöperative societies, and in the meantime, I believe that the national government should continue with even greater vigor its proposed program of establishing market grades and standards, developing a market news service, and facilitating the organization of coöperative societies.

With Mr. Meeker's conclusions in regard to the parcel post, public markets, improved terminal and storage facilities, and the utilization of street railways for the transportation of commodities, I am in substantial agreement.

Mr. Weld, in his very excellent paper, points out that the retail store takes nearly as large a margin as that taken by all the other middlemen, including railroads, but he discusses the marketing problems as they present themselves under the present system of retailing. His justification of the subdivision of marketing into successive steps, as applying the principle of the division of labor and specialization, rests on the assumption that the present

retailing system is to be regarded as permanent. My study of retailing leads me to believe that the present system of retailing is one of the primary causes of the high marketing cost, which also

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accentuates other merchandising problems.

A very fundamental weakness in our present retailing system is the small size of the individual retailing unit. I am aware that very small retail shops are operating on a very low margin of gross profit because they have low administrative, rent, bad debt, and delivery charges, but these shops serve mainly those people who demand very little service or who depend upon these shops only for incidental accommodations. The ordinary retail store of today is too small to avail itself of the great cost-reducing principle of mass production. It cannot economize by large buying without reducing its number of stock turn-overs.

An estimate based on the budgetary study by the United States Department of Labor, 1901, on the rise in price of food since that time and on the number of stores selling food products in Chicago, places the average annual sales of retail food stores in that city at a little over \$25,000. I have checked this estimate and have found that very successful retail stores have sales as low as \$60,000 a

vear.

The chain store appears to solve the problem of economy in buying without sacrificing the location and convenience factor, so important in retail merchandising. It has had a number of administrative and financial difficulties to overcome, but after a long period of experimentation these are being solved, as is evidenced by the steady increase in the number of chain stores during the past two decades. The great increase indicates that economies can be effected in retailing.

The chain stores can economize by large buying direct from producers without reducing the number of stock turn-overs. They can also economize by standardizing their stock and service. Delivery expense can be reduced provided a chain is located in one community because consumers' orders for staples can be exchanged. The prevalence of the chain store system would tend to reduce the successive steps in marketing and to reduce the number of individual units in each step. The profits of individual retailers are not large, but the profits in the aggregate are. By reducing the number of successive steps and by reducing the number of middlemen, the aggregate profits will be reduced.

It seems inevitable that the demand for economy will introduce

the chain system or some other retailing organizations capable of utilizing the 'mass production' principle more extensively in the future. With this may come a tendency toward monopoly. It may well be that the consumer will not be in a position to benefit materially by this increased economy without finally organizing these systems on a coöperative basis.

In conclusion I wish to emphasize with the principal speakers the fact that marketing is a complex problem which requires study from many different angles.

CLYDE LYNDON KING: One basic element in minimum distribution costs, particularly of fruits and vegetables, has not been emphasized in either of the main papers, and that is the need for the standardization of farm produce and of containers.

Nature has already done much to standardize products, provided she be encouraged by careful and scientific choice of seeds. A leading seed firm in a recent prospectus states that "50 per cent of the seeds that are now being sold to our gardeners come from inferior stocks." The standardization of seeds and the standardization of growing processes can readily give us a standard product, and this standardized product can have definite, reliable grades of national significance, intelligible to growers and buyers in all sections of the country. Thus the grades of corn, wheat, and other grains have already been standardized to such an extent at least that the national government can now come in and adopt standards that mean the same thing the country over. But little has been done, however, toward national standardization in fruits, and practically nothing has been done toward either national or local standardization of vegetables.

Of as great importance to minimum marketing costs is the standardization of containers. This applies with particular force necessarily to vegetables and fruits. So long as beans are marketed in the bushel hamper, in the ½ bushel basket, in barrels, half barrels, bushel boxes, 1/3 bushel boxes, the gallon and its small divisions, box crates, hamper baskets of 28 quarts and 1½ bushel capacity, and occasionally, as in New York, in the 32-quart berry crates; so long as beets are marketed in the bushel hamper, fractional bushel baskets, stave baskets, baskets of greater than a bushel capacity, standard barrels and their fractions and in 32-quart crates; so long as lettuce is marketed in the bushel

hamper, the 5/8 bushel basket, in lettuce crates of all sizes and denominations, in round stave baskets, hamper baskets of 28 and 40-quart capacities, and in barrels and baskets of all sizes; so long as tomatoes are shipped in bushel hampers, in 5/8 bushel baskets, fractional bushel baskets, two-quart baskets, or in four-basket crates as may fit the imagination or tradition of the grower; so long as there is such heterogeneity as this in containers even in the same locality, let alone in the same state or primary market; so long as no one container is typical for any one product on any one market,-just so long will it be impossible for the retailer or other buyer or seller to know how much or what grade he is ordering. Just so long as such conditions persist, marketing methods can only be hit-and-miss guesses all along the line. To approach accuracy, to make produce available, to make prompt ordering possible, to facilitate sales, to conserve space in carriers and in storage, attention must first be given to the standardization of containers.

This need was definitely brought out in the answers to certain questions recently submitted by the author to the 246 members of the Vegetable Growers' Association. These growers not only recognized the utter want of similarity in containers in the various markets and in the same market, but pointed definitely to the advantages of standardization of containers. Some of the advantages mentioned were: lowering of costs, convenience of handling, saving of time, producer and consumer know what they are giving and getting, goods are more wisely handled, there is more satisfaction, buying and selling are made easier, one price would then be possible for each grade of goods. In general these growers recommended three methods by which standardization could be attained:

use of labels, legislation, and cooperation.

With such standard containers and products, and with the responsibility for living up to these standards squarely placed upon the growers, many needless risks in sorting and packing by wholesalers, and jobbers, would be eliminated. Retailers could then buy with greater accuracy and with better results, and the consumer would benefit through more stable and lower prices.

A second fact that has not received the attention it deserves is the reorganization of marketing methods now going on among growers, and among the chain of business men from producer to consumer. The rampant asseverations of the past few years as to the unnecessarily high cost of food distribution have at least had the very happy result of putting into the minds of farmers and all middlemen questions as to just what their actual marketing costs are at each stage in the distribution process and whether and how these costs can be lowered. The farmers and business men generally, therefore, have of late been reorganizing to a greater or less extent their own buying and sales methods. This is particularly true of those concerned with the growing and marketing of vegetables and fruits, the sales agencies as well as the markets of grain having been fairly well standardized.

The reorganization of the market is therefore not an ideal merely to be hoped for. It is a force already with us. Fifty-seven reasons can easily be summoned to prove that what is in the distribution system is right, but happily the big fact is that as many business forces are now at work revamping and reorganizing our distribution system. Thus vegetable and fruit growers particularly are watching prices at every step in the distribution process with a view to adapting their sales methods to maximum returns and of selling at the point where such returns are assured. Of the 138 vegetable growers in the United States who answered the author's query as to whether they sold to local purchasers, cash-buying jobbers, retailers, or consumers, 39 answered that they sold to wholesalers on consignment, 30 to cash-buying jobbers, 31 to local purchasers, 51 to retailers, and 22 to consumers. That is, onehalf of these growers sold either to retailers or consumers. Nor are these growers limiting themselves to any one of these five outlets for their goods. Thus, of the 138 who responded, 17 sold to all five, that is, to wholesalers on consignment, cash-buying jobbers, local purchasers, the retailer and the consumer. Seven more sold to wholesalers, cash-buying jobbers, local purchasers and retailers. Others sold to three or more of these.

Nor are the growers alone the only class of business men who are organizing their purchasing and selling methods. The whole-saler is turning jobber. He is sending his automobile direct to the farm and is selling direct to the retailer. The jobber is buying direct from the farm and is selling direct to the retailer. The chain store is combining within its organization practically all of the various steps in the distribution process. Retailers, through coöperative organizations and through the dissemination of knowledge of how and when to buy, are buying much more directly and

efficiently than ever before. Consumers, whether through cooperative organizations or through extended knowledge as to food values

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and food products, daily buy more intelligently.

The science of marketing and of minimum distribution costs alike require the securing and dissemination of reliable information. We have now reached the point where there is urgent need for city. state, and national market bureaus that will go "hob-nailed" and not "pussy-foot" in securing and giving out the facts needed for sane buying and selling on the part of all. The national market bureau, in ascertaining the areas where the standard fruits are most largely grown, and the markets for these respective areas, is laying a splendid foundation for a real science in marketing and for minimum distribution costs. The New York State Food and Market Bureau, recently created, likewise offers valuable suggestions as to what can be done in the future to give to growers and purchasers the information needed to reach the best markets at the best prices. The public auctioneer plan, recently authorized by a proposed statute applicable to New York City, and the usefulness of which has been demonstrated in continental cities beyond a measure of doubt, offers an avenue for direct sales of standard products in standard containers that bids fair to revolutionize the character of products grown and the marketing methods used by growers near all large cities. Suggestions as to the endless possibilities in the education of the consumer are the pamphlets now being issued by Mayor Mitchell's Food Supply Committee of New York City. These pamphlets instruct housewives in such every day matters as how to cook fish. As part of this general scheme comes in the much abused parcels post, shipment by hamper, and the public market. Taken in and by themselves, these schemes do not appear to offer propitious possibilities for feeding the fifty million urban and suburban residents in this country, but taken as a whole, together with the other tendencies herein indicated, they constitute a very valuable and formidable check upon the maximum price of farm produce.

Such are some of the typical forces now at work in the reorganization of markets. With such an inclusive and well supported view of the marketing system before us as that so ably and reliably outlined by Professor Weld, it is not relatively worth while as yet to give serious consideration to a proposal for "postage stamp"

railway rates, or to a proposition to build up a protective wall around each of the local communities by making distance rates proportionately higher. The initial cost of hauling from farm to shipping station alone makes both these questions sink into relative insignificance. The fact is that the Kansas farmer today is nearer the Philadelphia market than the Pennsylvania farmer of twenty-five years ago who lived in sight of the spires of that city's churches. For all intents and purposes, the relative cost of distance shipments is relatively inconsiderable as compared with the cost of hauling from farm to shipping point. And, on the other hand, this initial cost is so great as to render not only futile but very harmful any attempt to give to the local agricultural community higher prices from nearby urban dwellers through raising rates to more distant points.

Without any change in our general scheme of railway rates, without any brief either for or against any one of the existing types of middlemen, without deciding whether efficiency in marketing means more middlemen or fewer middlemen, the forces that are now at work in the reorganization of marketing methods through lowering costs to each and every business man interested therein will ultimately place marketing in this country on an exact, scientific basis. This means assistance to farmers and country buyers through dissemination of the needed marketing information, assistance to wholesalers and jobbers, through adequate terminal and wholesale facilities, assistance to retailers and consumers through reliable information, all of which can be secured with maximum social efficiency only through well organized market bureaus in city, state, and nation.

J. Russell Smith: Professor Lauman's final dismissal of the parcel post as a medium of marketing products from farm producer to city consumer was perhaps made too soon. Parcel post is very young yet, and it takes things a long while to develop. The parcel post is closely associated with the matter of standardization of packages, and I hope that we may hear Dr. Carver answer his own question as to the desirability of inspection of standard packages, as we now have inspection of standard weights and measures.

Personally I believe that such inspection should come, and when this process of standardization has gone forward, then the parcel

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post may render an important service. Personally I should like to buy packages of pecans and other nuts if I knew what I was buying. As it is, I am afraid to buy them anywhere because of my experience in buying pecans that stick to the shell and would not come out easily. Similarly, I am afraid to buy a barrel of apples without I know the brand. Similarly, in laying in my stock of potatoes for the winter I had to do my own sampling to find out whether they were soggy or mealy. I should not have had to do this. There is no physical reason why packages of potatoes, fruit, many perishable vegetables, nuts, etc., may not be standardized, and when standardized, shipped in many cases by parcel post. But standardization is the next and indeed the first step.

Henry C. Emery: I have taken so much of your time already in the morning session that I should apoligize for rising again. I cannot resist, however, asking for a few minutes because of the great interest with which I listened to this discussion. My interest is due to two facts. In the first place, years ago I came to the conclusion that our whole theory of price, as elaborated in our economic treatises, gives such an imperfect explanation of the way in which prices are actually made in the market as to be almost useless. The problem of the margin between consumer's price and the producer's price, and the problem of the different prices charged to different consumers for exactly the same thing seem to me the most important problem in our fabric of economic theory.

The second reason is because of my own experience in connection with the Tariff Board for three years in Washington. We collected there a large amount of material, both as to prices and costs. I well remember that as each table was brought up from downstairs to my desk it was frequently handed over with the comment, "Here is one more argument for consumers' coöperation."

Such remarks were in a sense humorous, but were made to emphasize the way in which the fact was being more and more impressed upon the whole force there that a fundamental factor in our problem was a study of the gap between consumers' price and producers' price. In fact, I think most of us came to the conclusion that a large amount of theorizing on the tariff was useless, due to the fact that economists have failed to recognize the existence of a large number of different prices. They have talked about

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the price of corn in Poland and the price of linen in Ireland as if either of these were a single and determinable factor. The fact, of course, is that there is a mill price, a jobbers' price, a wholesalers' price, and a retailers' price, to say nothing of the fact that there may be a considerable difference in actual retail prices in two adjoining stores. For example, we found that in a considerable number of commoner grades of cotton dress goods these goods sold actually cheaper in the United States at the mill than in England. On the other hand, they would be sold to the American consumer at a higher price than to the English consumer. In some cases the price would be slightly higher; in other cases greatly higher, according to marketing methods, the custom of set prices, or traditions of one kind or another. Thus it might be that in one such case a 20 per cent change in the tariff would mean nothing to the consumer, while in another case a 5 per cent reduction might mean much.

I arose, however, to give one important injunction to this group of younger economists who have done such excellent work in studying these problems. Recognizing the fundamental importance of their study, both for economic theory and for the determination of such practical problems as the effects of tariff rates, it is essential for them to remember that much of this good work will be completely nullified if they should make the mistake of starting out to find any one superior system or method of marketing. What our experience at Washington taught us was the fact that what is true of an "organdie" is not necessarily true of a "dotted swiss," so far as producers' and consumers' prices are concerned, even if the same system of marketing is adopted. The same must hold true regarding goods in any line.

We have all been making the mistake of talking about such things as "cotton dress goods" or "shoes," as if either of these were a single commodity about which sweeping assertions could be made. Some goods can be handled with least waste by the small, independent retailer; some by chain stores controlled by manufacturers; some by coöperative chain stores. Some goods can be handled economically by parcel post; some cannot. Some goods can be standardized; some cannot be standardized. Some can be standardized for one purpose, but not for another. Some goods will be sold by grade, some goods by sample. Indeed the same goods will be sold by grade for one purpose and by sample for another. All

these complexities must be recognized. There is no single method, no one perfect system of marketing, even in the case of the same line of goods. I emphasize these facts for fear that by not keeping them clearly in mind the true value of the important work which is now being done in this field may be seriously impaired.

JOHN LEE COULTER: Some ten years ago when I first started to study the problems of marketing farm products and, indeed, the problems of marketing in general, I found it difficult to secure any printed article or other contribution on the subject. The progress during the last ten years has been marvelous and certainly should be encouraging to all of us. I rise to suggest only one important consideration which all of us should keep in mind. It is such a new field and the data collected are so important that each one engaged in making an investigation should bear in mind not only his own interests, but the needs, interests, and wishes of all of us. In doing this there is one fundamental principle which should be kept constantly in mind when studying the cost of marketing, and this is the great variation which is found not only in the cost of marketing the same product at different seasons of the year, but different products at the same season of the year, and also the differences in the cost as between individual marketing agents. Variations in efficiency are something perfectly wonderful. All of you who have been conducting investigations recognize this. An inefficient marketing agent may be making very little profit and the cost of doing business may be very great, even 40 or 50 per cent, while, on the other hand an efficient marketing agent may be accumulating immense amounts while taking a margin of only 20 or 25 per cent. Bearing this in mind it is of the greatest importance to all of us that investigators keep separate the information showing the seasons of the year, the exact types of goods and facts for different marketing agents.

There is one other matter in this connection which might well be referred to, though I do not wish to take more than a minute of your time. Reference has been made from time to time to the holding of a product over from the wrong time (time when it is not wanted) until the right time (the time when it is wanted). This, of course, is the whole storage problem, and includes not only warehousing such as is found in the case of cotton, wheat, etc., but also cold storage. I desire to attract your attention to another

method of creating time utility, and yet the method to which I refer has probably generally been thought of as belonging to an entirely different category. I have in mind the time of agricultural production to suit the market. Thus, it may cost the farmer one dollar to produce a certain quantity of a certain product for the use of the consumer on the first day of June. But the farmer discovers a demand for the same product on the first day of May. He may find it possible to produce the same quantity of the same article for delivery on the first day of May but it may cost him \$1.10. The question arises in my mind whether this additional ten cents should not be considered as the cost of giving to the article time usefulness.

There are large numbers of related problems which have come to my mind and which I have studied during the last ten years but I shall not try to bring them before you at this time. I think that we owe a great deal to those who are making such intensive and useful studies in this field.

THE STATISTICAL WORK OF THE UNITED STATES GOVERNMENT

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Walter F. Wilcox: This is the first time that the American Economic Association and the American Statistical Association have met in joint session and the second that they have in coöperation considered the topic which is now our theme. The memory of some older members of the two Associations instinctively runs back this morning to the time, more than eighteen years ago, when joint committees of these Associations met around a table in New York to consider the terms of a memorial to Congress in favor of a permanent Census Bureau. The attendance was large and representative, the sessions prolonged and animated, not to say stormy. Finally, the committees reached substantial agreement and the memorial then drafted exerted, I believe, an appreciable influence upon the decision of Congress five years later to make the bureau permanent.

Two earlier precedents are even more encouraging. The first significant improvement in American census practice was made in 1800, with the purpose of testing the healthfulness and longevity of the American population. An age classification of the free whites into five periods was then introduced. This concession to non-political considerations resulted directly from petitions originating with the recently reorganized Connecticut Academy of Arts and Sciences, and effectively supported by similar petitions from two older and more influential learned societies, the American Academy of Arts and Sciences at Boston, and the American Philosophical Society, located at the seat of government in Philosophical and under the presidency of Thomas Jefferson, then Vice-president of the United States.

The longest forward step ever taken by federal statistics was probably that between the censuses of 1840 and 1850. The changes then introduced were due in no slight degree to the egregious blunders in the census of 1840, to which students had called attention, and to petitions for an improved census emanating from the New York Historical Society, and the then youthful American Statistical Association. In now debating the condition of federal statistics, with a view to determining our individual responsibilities as scholars and our collective responsibilities as learned societies towards its present and future condition, these Associations are following a line of notable and cheering precedents.

If one hopes to contribute individually to the improvement of federal statistics, the first essential is a thorough knowledge of the actual conditions under which the work is done and of the field of inquiry with which the figures are concerned. It is seldom possible to get this knowledge from printed official reports. For example, the census of 1870 reported that 12 per cent and that of 1910 that 21 per cent of American negroes were mulattoes. The obvious interpretation is that these two races have been intermingling rapidly since the Civil War. We are not informed that in 1910 for the first time many of the enumerators employed were Negroes, that private inquiries conducted by Negro enumerators have shown a proportion of mulattoes much greater than census returns of similar date and place, and that this administrative innovation may explain much or all of the reported increase of mulattoes. The figures do not prove and perhaps hardly strengthen the inherent probability that miscegenation has increased.

How many members of our Association who use the statistics of immigration know, what they could hardly learn from the reports of the Bureau of Immigration, that the meaning of the word immigrant as its statistical unit has been several times altered by bureau circulars and the comparability of the figures for successive years disturbed? How many know that until recently an immigrant bird of passage was counted as an immigrant when he arrived in the spring, was not counted when he departed in the fall, and was counted again as often as he returned?

Closely related with this need for a thorough knowledge of any inquiry whose results one uses is the need for measuring or estimating the amount and direction of the error in the results. This is quite other than the probable error with which mathematical statists are concerned. It seeks to learn whether the reported figures are above or below the truth and by how much. In a complicated series of inquiries each set of answers has its own margin of error, and an estimate of one throws little light on another. The reported number of married women is slightly too large because for a woman to allege marriage is to state a claim; the reported number of divorced women is far too small because such a report is a confession of fault or failure.

The greater the importance of one's statistics for the purpose he has in hand, the stronger becomes the need of determining 'See the writer's "Our Gain in Population through Immigration" in National Civic Federation Review, Nov.-Dec. 1906, p. 7.

whether they may be trusted to the degree implied in the argument, just as the taller the building, the deeper and firmer must be its foundations. Is there no danger that towering and impressive constructions of economic speculation are being erected both in the United States and in Europe with too little effort to make sure that the statistical foundation is bed-rock? Is there no danger that some of these may prove ultimately to be ill-founded? This is a peril against which mathematical statists may need to be warned. To voice that warning, I cite two examples from the mistakes of mathematicial geniuses.

Before and for many years after 1790, when the United States took the first national census on record, the opinion was current among European statists that to enumerate a country's population was impracticable. Needing to know the population of France. Laplace secured a count of the residents in certain scattered districts and also of the annual number of registered births in these districts and in the country. These facts gave him a ratio between births and population which he applied to the whole of France. The process was legitimate, but in defending it Laplace went into an elaborate mathematical demonstration showing with pages of formulae that there was not one chance in one thousand that the error of his estimated population would exceed half a million. Today it is demonstrable that his estimated population was under the truth by more than two million, or 9 per cent of the total, and that the mistake lay not in his mathematics but in the number of registered births in France, to which he applied his ratio.2

If any mathematician held a position in the United States at the end of the nineteenth century comparable to that held by La-

The earliest and fullest statement of Laplace's argument is in his contributions to Histoire de l'Académie Royale des Sciences for 1783, printed at Paris in 1786. After several unsuccessful inquiries of the larger American libraries, these volumes were found in the library of the American Philosophical Society of Philadelphia, which kindly sent them to Ithaca for my use. Laplace clung to this method at least until 1814, when his Essai Philosophique sur les Probabilités appeared (See Ocueres Complètes, 1843-47, Vol. VII, pp. lvi, f.) and his disciple Quetelet until 1827, when its keen criticism by de Keverberg won Quetelet over to the method of enumeration, of which he soon became the most convincing and effective advocate. My criticism applies to the form of Laplace's estimate set forth in his Essai Philosophique, because in that form it can be tested by census and registration figures. For evidence that his estimated population of France, 28,352,845 in 1802, was below the census figures and that those were below the truth, see Jacques Bertillon's Stat. Intern. résultant des Récensements (1899), pp. 30, 31.

place in France at its beginning, it was probably Simon Newcomb. Because of his eminence, I venture to feather my warning shaft with an example from his statistics. In his brief Statistical Inquiry Into Sex in Human Offspring3 a main object was to show that "the treatment of statistical data generally on a large scale by the rigorous methods of probable induction leads one into a field the cultivation of which promises important results to the science of the future."4 The first of his six conclusions was: "The preponderance of male over female births probably varies with the race . . . it seems to be either non-existent or quite small in the negro race." This conclusion was founded entirely upon census figures which are subject to a margin of biased error, so wide that they have no probative value. Furthermore, the conclusion is directly contradicted by the few American registration figures of births by race and sex to which no reference was made, although the best of them were published by the city in which the article was probably written.

The keen interest in economic or statistical theory which expresses itself more and more often in a mathematical dress, is not infrequently associated with a distaste for the patient and competent testing of the basic facts. This neglect may lead to building structures on foundations of sand and to compromising the reputation of our guilds in their collapse. Certainly the contrast between the magnitude of the superstructure and the slipperiness of the foundation is often glaringly apparent to those who have struggled in deep waters to lay the foundation and is in no slight degree responsible for the attitude of quizzical aloofness with which these structures are viewed by some who know much about their basis.

I dwell upon this suggestion because I have long believed it to be needed, and perhaps never more than now when the growing enthusiasm for mathematical statistics in Europe and the United States and the inability of many producers of official statistics to follow or criticize intelligently the interpretation placed upon their own figures may result in reviving a separation, which I hoped

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² Simon Newcomb, A Statistical Inquiry into the Probability of Causes of the Production of Sex in Human Offspring, Carnegie Institution of Washington, 1904.

^{*}Id., Prefatory Note.

^{*} Id., p. 8.

was of the past, into groups of official and private statists, each somewhat ill-informed about the other.

The most serious obstacle to sound work in federal statistics is probably the overemphasis upon its political aspects. All official statistics are political and in a sense partisan; they cannot be entirely divorced from politics within any future period of importance to the present discussion, yet for a century their scientific or rational meaning has been slowly gaining recognition. This change it is the duty and privilege of our Associations to support and urge forward. To that end we need to provide in our universities better training for statists, public or private, and to instil into them a sense of the scientific value of their work. We need to exercise an influence in favor of long terms of service for statists who have earned retention and for the promotion of those who show natural aptitude. Perhaps nothing would further this purpose better than to see some of our large offices become training schools in producing the future official statists of the country. They are not now trained in our universities and they cannot be well trained without enjoying the laboratory experience of a well-managed office. Universities situated near such laboratories might profitably arrange collaboration with them, like that between medical schools and hospitals or that between many European universities and the statistical offices of the cities in which they are situated. In this respect the Bureau of the Census has proved a disappointment. It has done little to train men so that they could rise to higher positions in the office and in so doing lift the office staff to higher levels of efficiency; much less I believe than the Coast Survey or the Geological Survey or the Bureau of Corporations has done. Largely as a result of this overemphasis upon the political aspects of its work and of its neglect to train men for promotion the quality of its statistics is not improving as fast as the quality of statistics in private corporations or the quality of federal work in geology or geodesy. Perhaps indeed, the deterioration is absolute as well as relative.

What should these Associations do toward improving federal statistics?

For the present, I have but one suggestion. It would be expedient, I believe, for each Association to appoint a committee on federal statistics, with power to enlarge its membership, and to coöperate with the corresponding committee of the other Asso-

ciation. These two committees might divide the field of federal statistics between them and start a person at work, if possible, on each main field. Each coöperator would be invited to prepare a report on the recent progress and present condition of statistics within the field assigned him and to embody recommendations for its future improvement. The reports would be laid before the main committee for editing. Those which received its approval would then be submitted to the Associations for printing.

In this manner our Associations might secure for themselves and the public a series of deliberate, reasoned, and expert opinions upon the subject of our conference. If this effort should prove successful, it would aid us in deciding whether further steps were desirable. Perhaps the time would be found ripe for an expression of opinion from one or both of these Associations regarding federal work in statistics or certain branches of it which would influence it helpfully in the future as similar expressions of opinion from these and other learned societies have helped it in the past.

E. Dana Durand: Much might be said regarding the need of extensions of the field of federal statistical work. The most important additions immediately desirable are perhaps annual statistics of manufactures and of agriculture. We already have annual returns, based on actual enumeration and not on estimate, of the mining industries and of cotton ginning, and until recently we had annual returns of lumber cut. There is equally strong demand for annual data, promptly published, of leading manufacturing industries and of the principal crops and domestic animals.

The need for current data regarding agriculture is by no means satisfactorily met by the estimates of the Department of Agriculture. The margin of error in these is extremely large. The principle followed in arriving at the acreage of crops and the number of domestic animals is to take the decennial census as a starting point and to add or subtract annually estimated percentages of change as compared with the preceding year. These percentages represent merely a consensus of guesses. An error in the estimate for one year continues to affect the figures for each year until the next census. Since errors in estimates tend, owing to psychological reasons, to continue in the same direction for a series of years, the cumulative error may become very great. For some states the estimates of the Department of Agriculture as to the acreage of certain crops for the year 1909 were several times

greater than the figures returned by the census. In some other states the Department's estimates were as much as 50 per cent too low. For the United States as a whole nearly all estimates were found at the time of the Twelfth Census to be materially too low and nearly all those at the time of the Thirteenth Census to be materially too high.

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The error in the agricultural estimates would, of course, be reduced by a quinquennial census of agriculture. By a law of 1909 the Census Bureau was authorized to take a simple agricultural census in 1915 and every ten years thereafter, but the present Congress has thus far shown an indisposition to provide the necessary appropriation. In any case a quinquennial census would be only a palliative, not a remedy for the existing evils.

Annual statistics for leading crops and domestic animals, based on actual returns of farmers, would involve comparatively little expense. The rural mail carriers, who cover by far the greater part of the cultivated territory of the country, could collect the data. In course of time it would become possible to induce most farmers to fill out the schedules themselves. The Department of Agriculture recently made an experiment with this method. The proportion of farmers who filled out the schedules delivered to them by the mail carriers was comparatively small. The results of this single experiment, however, do not seem conclusive. There was no law compelling farmers to fill the schedule and farmers were unfamiliar with the scheme. A compulsory law may possibly be unwise at present. Even without it, the system should work fairly well after a few years' experience. In any case the value of accurate annual returns of agriculture would be so great as to justify considerable expense.

The inadequacy of a quinquennial census to show accurately even the general trend of manufacturing industries is obvious, while it completely fails to disclose current conditions. Were an annual canvass of manufactures undertaken it would become year by year increasingly possible to secure the returns by correspondence. This is the method used for the most part by the Geological Survey in obtaining data for mines. It has also been successfully used for manufactures in Massachusetts. The schedules for annual returns might well be far simpler than those used at the quinquennial census of manufactures. They might be confined to inquiries as to the quantity and value of the leading individual products and as to the number of wage earners, leaving inquiries as to capital, ex-

penses, materials and the like, if such are deemed necessary at all, for the quinquennial or even the decennial enumerations.

In this connection it should be noted that even the elaborate quinquennial censuses of manufactures fail to present a great deal of information which is in strong demand. As regards many industries, there has been no attempt to ascertain the quantity or value of specific products. While, for some of these industries, it is scarcely practicable to obtain such data, there are others for which they could be obtained. Moreover, there is much demand for information regarding industries more narrowly limited than those distinguished by the census classifications. Owing to the fact that several branches of business are often carried on by a single establishment, the Census Bureau has more and more adopted the policy of classifying establishments according to very broad groups. When tariff bills, for example, are under discussion, information is demanded for specific industries, not groups of industries. Such information could be compiled and published at least for selected establishments which are free, or largely free, from the complexity of overlapping.

The president of the American Statistical Association, in his annual address, suggested the desirability of a committee of expert statisticians to serve as an adviser to the statistical bureaus of the federal government. Other speakers have touched on the same thought. Doubtless a good deal could be accomplished by the creation of a joint committee of the American Economic and American Statistical Associations holding no official relation to the government. Still more, however, could be accomplished by an advisory commission created by the government and comprising statisticans and economists from the universities and other experts who would devote only a fraction of their time to the work, as well as officials continuously employed in government statistical investigations.

In order that the work of such an advisory body should be of the greatest value, its members would need to devote a good deal of time to it and to incur considerable travel expense, both in mutual consultations and in conducting investigations at Washington and elsewhere.

It will be recalled that these two Associations at the time when preparations were being made for the Twelfth Census, organized a committee to make suggestions. For the most part the work of that committee consisted of monographs prepared, wholly or

substantially, by individuals. Useful as these were, they were less useful than would be reports based on extended consultation and discussion. The holding of such consultations by members of a widely scattered committee means time and travel expense.

Moreover, it is essential for any proper criticism of the federal statistical work that the critics should thoroughly familiarize themselves with the actual methods of the various statistical bureaus-the methods of collecting the original data, of editing the schedules, and of tabulation. They must know about tabulating machinery, about processes, and about costs. They must examine original returns and gain some idea as to the margin of error in them. Statisticians outside of the government service are altogether too lacking in information on such points as these. In most branches of statistical work we need at present, far more than any extension of the field or any improvement in the methods of analysis, an increase in the degree of accuracy of the raw material. It is very largely to this task that such a proposed committee should at first address itself. Obviously, in order that a committee of experts should secure the necessary information on which to base recommendations along this line, it would be essential for them repeatedly to visit Washington and to incur considerable expense.

An official commission established by the government would presumably be able to secure appropriations for expenses of this character. Further advantages of such a commission would be the fact that it would have more complete access to information than an unofficial committee, and the fact that its recommendations would doubtless have somewhat greater weight with administra-

tive officers and Congress.

It is possible that the necessary expenses of an unofficial committee on federal statistics might be provided for by private subscriptions. Should the proposed joint committee of the Statistical and Economic Associations find it feasible to coöperate with various commercial and business organizations, which are likewise interested in the improvement of government statistics, these organizations might aid financially in the work.

The present time is hardly propitious for legislative or administrative action creating an official advisory commission on statistics for the federal government. Every effort is being made to reduce expenditures. The first step is clearly the creation of a joint committee of these two Associations and action looking toward an

official organization should be deferred until a more suitable time. The joint committee might well consider the elaboration of a plan for such a statistical commission as part of its task.

A third topic to which I wish briefly to allude is that of coöperation between the federal government and state and local governments in statistical work. To some extent, coöperation may properly take the form of the employment of state or even municipal agencies to collect statistics for use by both the local and the federal government. The Massachusetts Bureau of Statistics has to a large extent acted as an agent for the federal Census Bureau in this way. Unfortunately, however, the standard of statistical work in most states and cities is not so high as that demanded by the federal government and the extension of coöperation of this type can be gradual only.

On the other hand, it would seem possible for the federal government to coöperate extensively with the state and local governments in another way, namely, by rendering available for special local uses the original data collected by the federal government itself for more general purposes. There is great demand in some states and cities for the presentation of more details as to small localities than are published by the federal government. This is notably true with respect to the censuses of population, agriculture, and manufactures. For example, a reasonable amount of detail regarding population and agriculture is desirable for townships; the Census presents data only for counties (except of course, that the number of inhabitants is given for townships).

The federal government properly feels that it cannot afford to tabulate and publish information as fully for small areas as it does for states or for the country as a whole. It should, however, be willing to place the results of its canvass at the disposal of the states for the purpose of more detailed local presentation, or at the disposal of individual cities, counties, or other local governments. The federal government might offer the state or local governments gratis the original schedules after it had finished with them. It might furnish, more promptly, duplicates of those schedules, the cost, which would be low, to be borne locally. Again, the federal government might, on request, itself tabulate and publish the desired details at the expense of the states or local governments. None of these plans can be satisfactorily carried out without new federal legislation. At the last census there were a

number of cases in which states or local governments were willing to bear the expense of special tabulations or of copying schedules. The census officials were perfectly willing to comply with their wishes, but found it almost, if not quite, impossible to do so under existing provisions of law, as to confidential treatment of returns and as to financial procedure.

Much of the raw material of statistics collected by the federal government is only partially utilized at present. Valuable metal is left in the ore. Further local elaboration of this material would in many cases be more useful to states and local governments than the special censuses and other statistical investigations which they themselves undertake. Coöperation is the obvious thing. Of course it would be possible also for the federal government, under proper conditions, similarly to make its statistical resources available for private organizations and even individuals.

ROYAL MEEKER: I agree with much that Professors Willcox and Durand have said. I believe that it is desirable to secure comparability and continuity in our statistical output. In revising the work of the Bureau of Labor Statistics I have kept these things in mind, and, so far as possible, have constructed the new series of price and wage indexes so as to admit of comparisons with the old indexes. The new wholesale price index number will be calculated back to 1890 so that the old index and the new may be compared throughout the whole period since 1890. The retail price index. however, has been calculated back only to and including 1907, for two reasons: first, because of the enormous amount of labor involved and the insufficient force and funds of the Bureau; and, second, because since 1907 retail prices have been much more accurately reported by merchants than previously, greater care being exercised to obtain the actual sale prices on the fifteenth of each month of the same grade of each commodity sold by each store. The price quotations before 1907 and since that date are so different that comparisons cannot fairly be made. No good purpose can be served by calculating the relative prices and index numbers back of 1907. Such a continuous series of relatives and indexes would give merely a fictitious comparability and continuity to retail price statistics, the prices themselves being discontinuous and incomparable.

It was my desire to carry back through 1907 the new index numbers showing changes in hourly rates of wages, full time weekly earnings and weekly hours of labor in different industries. In some industries, however, the number of establishments reporting in 1911 was greatly increased over the number in 1910, so that no fair comparison could be made going back of 1911. It is unfortunate that the relatives and index numbers cannot be carried back in every instance to 1890, but I feel that it is better to make no comparisons of wages and prices rather than to make erroneous comparisons by means of a fictitiously continuous series of relative prices, wages, earnings, and hours of labor.

I sincerely hope that the proposed joint committee of the Economic Association and the Statistical Society, to advise with the statistical bureaus of the government, will be appointed. Unnecessary duplication of statistical work should be eliminated, and the statistical methods used should be standardized and made uniform. Especially is standardization and uniformization of methods needed in the different commonwealths of the United States. For example, the accident statistics of one state cannot at the present time be compared with the accident statistics of any other state because the statistical methods are so utterly at variance.

The various statistical bureaus in the federal service are getting together as never before so as to avoid duplication of effort and to agree upon the right things to do and the right way to do them. I am trying to prevail upon the various state agencies to coöperate with the Bureau of Labor Statistics and with each other in the gathering of statistics of accidents, unemployment, retail prices, wages, and hours of labor.

It is slow and discouraging work, but great good will result, if we can agree upon what statistics should show and the best methods of showing what is wanted. The committee suggested would be of great service in establishing proper statistical standards, in calling attention to the enormous quantity of costly and useless statistical output, and in eliminating duplication of work and the confusing and costly publication of more or less contradictory statistical stuff by various federal and state agencies.

Most treatises on statistics deal exclusively with statistical methods. Nothing is said about the data to which correct statisical methods are to be applied. Now all experience shows that the principal source of error in statistical work lies in the original figures collected to represent wages, prices, hours of labor, etc. It is much more important that we give attention to the gathering and

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verification of the original data than that we devote our efforts to hair-splitting refinements in the methods of treating the facts gathered. With all the treatises on statistical methods, however, we have not learned the difference between right methods and wrong methods in our statistical analyses. In fact, the treatises themselves are generally very vague or perfectly noncommittal as to the applicability of a given statistical method to a given set of conditions. Some writers seem to think that it really doesn't much matter what statistical methods we employ, as approximately the same results are obtained by any and all methods. I do not hold this comfortable view. I believe there is a right way and a wrong way of doing things. I believe it is of first importance to get our facts right, but I am convinced that the most irrefragable facts are sometimes made to tell lies because they are treated by

wrong statistical methods.

Long before I took charge of the Bureau of Labor Statistics, I had become very suspicious of the Bureau's index numbers, especially its retail price index. Some people here present will no doubt recall that I was wont to have fun with the Bureau's index numbers. I no longer have fun with them; - they have fun with As soon as I took charge of the Bureau, before I had got settled in the saddle, I set about to revise and recalculate the index numbers published by the Bureau. Perhaps some of you will recall receiving more than a year ago a letter from the Commissioner of Labor Statistics-a S. O. S. call for help. I did not have the self-assurance to set about revising the index numbers without first taking counsel with those who were best qualified to advise me in this matter. Many of you who received this distress signal may remember carefully depositing it in your waste basket. At least I received no reply from a number of economists and statisticians whom I addressed. Most of you who did reply may remember dictating a perfectly perfunctory reply which revealed either that you did not know or care much about index numbers, or that you did not wish to prolong your correspondence with the Commissioner of Labor Statistics. I want here and now to acknowledge publicly the assistance given me by Professor W. C. Mitchell and Professor Irving Fisher. Had it not been for the sympathy, encouragement, and counsel of Professors Mitchell and Fisher, I should not have had the courage to carry out the recasting of the Bureau's index numbers. I have changed the methods employed in constructing the index numbers and shifted the base period from 1890-99 to the last completed current year. It has been a most laborious and tedious undertaking, but the work is now nearly completed.

That the method used in constructing index numbers is not an inconsequential matter is shown by a brief examination of the following table:

Prices of Potatoes for May, June, and July, 1913.

	M	ay		June			July	
1	2	8	4	5	6	7	8	9
Firm	Price	Relative on May base	Price	Relative on May base	Relative on June base	Price	Relative on June base	Relative on May
804	\$0.20	100	\$0.40	200	100	\$0.30	75	150
808	0.17	100	0.36	211	100	0.32	89	188
815	0.50	100	0.40	80	100	0.35	87	70
817	0.20	100	0.20	100	100	0.30	150	150
821	0.20	100	0.40	200	100	0.85	871	175
lity Aggregates	\$1.27	500	\$1.76	791	500	\$1.62	489	733
lity Relatives	100	100	139	139	100	92	98	147

This table gives the prices of potatoes during the months of May, June, and July, 1913. These prices have already been published by the Bureau of Labor Statistics. The prices were reported to the Bureau by five identical firms in one city,—all the identical firms reporting for that city for the three months, May, June, and July.

In the first column is given the firm number. In the second column are given the money prices per peck for potatoes as reported by these five firms. In the third column the money prices are reduced to percentages or relative prices, May being taken as the base. Of course, all relative prices for that month are represented by 100. In the fourth column are given the June

prices per peck for potatoes reported by these same five firms, In the fifth column are given the relative prices in June on the May base, that is, the percentage of June to May prices. You will notice that some of the prices reported to the Bureau look very peculiar. Firm 808 reports potatoes at 17 cents a peck in May. Firm 815 reports potatoes by the peck at 50 cents in May. Clearly here we are dealing with different economic commodities. No doubt 17 cents is the price for old potatoes, while 50 cents is the price for new potatoes. Note the phenomenal changes in prices in June as compared with May. The first firm shows an increase of 100 per cent in the price of potatoes; the second firm shows an increase of 111 per cent; and the third firm shows a decrease of 20 per cent. Now I wish to emphasize that these prices are actual prices reported to the Bureau by all of the identical firms in one city that reported for the three months under consideration. We instruct our retail grocers to report new potatoes only when the sales of new potatoes make up more than 50 per cent of their total sales of potatoes. In this case it looks as if some of the firms had not strictly followed instructions, but I have as yet discovered no way of going behind the "election returns." We must rely upon the honesty and intelligence of the firms reporting. Had the prices reported by Firm 815 been called to my attention early enough, I should have eliminated it altogether-at least the price reported for May.

Now let us consider the city relative price constructed by averaging the individual firm relatives for the month of June. The simple arithmetic average of the relatives in column 5 is 158, that is, according to the information given by this relative price, prices of potatoes in this city have risen 58 per cent from May to June. By comparing the aggregate money prices we get quite a different result. The aggregate prices may be used in the construction of relative prices in this case because the firms reporting are identical for the months of May and June. Of course, if a different number of firms had reported in May as compared with June, it would be necessary either to compare identical firms or to reduce the aggregate prices to average prices to obtain anything like an accurate result. The aggregate money prices in May are \$1.27. The aggregate for June is \$1.76. Reducing both these money prices to percentages of the May price by dividing by \$1.27, we obtain as the June relative price on the May base, 139. This is almost 20 points less than the June relative price obtained by averaging individual firm relatives—a difference which certainly is not negligible and which is altogether due to the difference in method of calculating the relative prices.

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Whatever may be said of the excellences of a general relative price constructed by the method of averaging relative prices built up from different bases for the purpose of showing changes in the cost of living, a relative price built up from actual money prices shows much more accurately what we want to show, namely, changes in the cost of living—changes in the cost of the same quantity of a commodity or of an unvarying market basket.

Since 1907 the method followed by the Bureau in constructing relative retail prices and index numbers has been as follows: Identical firms were compared month by month, the theory being that it is inaccurate to compare changes in relative prices of five firms one month, eight firms the following month, and ten firms the next month. In this way a relative price for February would be constructed on the January base by comparing the identical firms reporting both for January and February. Then this February relative price on the January base was multiplied into the January relative price on the base chosen for all relative prices and index numbers published by the Bureau, namely, the period 1890-99. Next a March relative price was constructed on the February base by comparing the prices of identical firms reporting for these two months. This March relative in turn was multiplied into the February relative price constructed on the 1890-99 base. In this way only identical firms were brought into comparison month by month. Now this method of bringing into comparison only identical firms is a perfectly good and accurate method, if properly applied, but applying it in this way necessitated shifting the base of the old index number every month. A relative price or index number built up by the method of averaging relative prices constructed on different bases cannot be shifted without a percentage of error that can only be guessed at. Every time the old index was shifted in the way described above error was injected into the result, and the error was perpetuated and probably cumulated month by month and year by year. I will refer to this source of error a little later on.

Applying the method of comparing identical firms month by month to the figures in the table before us, we obtain an average relative price of 93 for July on the June base, for the five identical firms reporting in both June and July. By comparing the aggre-

gate money prices reported by the five identical firms, we get the July relative price, 92, on the June base.

In column 9 are given the July relative prices constructed directly on the May base. The average of these relative prices is 147. By the method of shifting from one base to another we get a very different result. Multiplying the average relative price for July on the June base (98) by the average relative price of June on the May base (158) we obtain what purports to be the July average relative price on the May base (155). The difference between these two averages of relative prices for July on the May base is 8 points. In the first case the July prices are compared directly with the May prices. In the second case the July relative price on the June base is multiplied into the June relative price on the May base. This gives some idea of the possible discrepancies which may arise from using the method of comparing identical firms month by month, even when there is no change in firms whatsoever.

When we compare the aggregate money prices reported by identical firms in June and July, we obtain a July relative price of 92 on the June base. Now this relative price can be shifted without error to the May base or any base desired. This may be best shown by the following simple arithmetic:

\$1.76 = June aggregate price = the June relative price on the \$1.27 = May aggregate price May base.

\$1.62 = July aggregate price = the July relative price on the \$1.76 = June aggregate price June base.

Multiplying the July relative price on the June base by the June relative price on the May base, we have

$$\frac{\$1.62}{\$1.76} \times \frac{\$1.76}{\$1.27} = \frac{\$1.62}{\$1.27} = 127 \frac{71}{127},$$

the July relative price on the May base, which is exactly the same result as would be obtained by dividing the July aggregate in the first instance by the May aggregate. Even with changing firms and commodities varying in quality, the relative prices calculated by comparing actual prices may be shifted to any desired base by the method illustrated above with the closest possible approach to absolute accuracy. Shiftability is an indispensable quality in a relative price which must be built up by computing the relative for each month with the preceding month as the base, and then shifting the resulting relative price to the selected base period by

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multiplying through by the relative price for the preceding month computed on the selected base period. If there were no other reason for changing the method of computation, this alone would seem to make the proposed change in method imperative.

The July relative price of potatoes on the May base computed by the old method employed by the Bureau is 155. The relative price of potatoes for the same month on the same base computed by the new method is 128. The difference is 27 points—a difference so great as to shake one's faith in relative prices and index numbers, if we had nothing to indicate to us whether the relative 155 was better or worse than the relative 128. In fact, however, a relative computed from actual money prices does reflect as accurately as possible the percentage changes in the cost of a given commodity. The relative 128 is, therefore, more trustworthy and exact than the relative 155.

In the same way a weighted index number of the family food budget, constructed by the use of actual money prices weighted according to the quantities of each commodity entering into consumption, is much more accurate and trustworthy than either an unweighted or a weighted index number constructed by the old method of averaging averages of relative prices to the fourth and fifth degree.

The advantage of constructing relative prices and index numbers which can be shifted to any base desired has still another important aspect. People are curious to know the percentage of price change from 1912 to 1913 or from 1907 to 1913, or for some other recent period of time. Few are interested to know by how large a percentage the prices of 1913 exceed the prices of a period as remote as 1890-99. It is impossible by means of the old series of relative prices and index numbers to calculate accurately the percentage change in prices from 1912 to 1913. For example, from the Bureau's Bulletin 140, p. 16, we learn that the relative prices of round steak were 174.3 and 199.5, respectively for 1912 and 1913. Nobody can from these figures calculate the percentage of change in the price of round steak from 1912 to 1913. severest critics of the Bureau's price statistics almost invariably calculate the percentage of change by the short and simple process of subtraction, contenting themselves with the misinformation that the price of round steak rose 25.2 per cent from 1912 to 1913. A more "scientific" method employed is to divide both relative prices through by the 1912 relative, 174.3, thereby going through the

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motions of shifting the base period to 1912, and obtaining 100 and 114.5 as the relative prices of round steak for 1912 and 1913, respectively, computed on the 1912 price as the base. The Bureau has resorted to this method in previous bulletins, to construct tables purporting to show the percentage changes in prices from year to year. This method of procedure is mathematically unsound and the result is vitiated by an amount of error than can be ascertained only by digging up the original price data and reconstructing the relative prices anew on the 1912 base. That the possible error is no negligible quantity is demonstrated by a brief consideration of the table below:

Prices of Potatoes for June and May, 1913.

Firm	Jı	ine	M	Tay
	Price	Relative	Price	Relative
804	\$0.40	100	\$0.20	50
808	0.36	100	0.17	47
815	0.40	100	0.50	125
817	0.20	100	0.20	100
821	0.40	100	0.20	50
Aggregate	\$1.76	500	\$1.27	372
Relative price	100	100	72	74

The relative price for June on the May base computed by averaging relative prices is 158. This quantity is supposed to give the percentage relation that June prices bear to May prices. It is desired to find what is the percentage of May prices to June prices. Using the usual method of dividing through by the relative price (158) of the period to be used as the new base, we get the following relatives: June, 100; May, 63. When we compare the money prices and calculate the firm relative prices and average them we get 74, as shown above.

The relative price computed from the original price quotations is more than 17 per cent greater than the relative price obtained by shifting the base in the manner described above.

It must not be forgotten that the figures used are actual prices returned to the Bureau by all the identical dealers reporting from one city. This is not a case cooked up for the purpose of showing a theoretical possibility that contains no element of probability. I

chose potatoes deliberately because their prices behaved so oddly at just this period when new potatoes are coming in and old potatoes are going out. The example given is extreme, but it is by no means unusual, and such capricious fluctuations are repeated every year for potatoes, and to a lesser extent for eggs and some other commodities that are subject to rather violent price changes. No doubt, more startling examples could have been found by a very little search. These examples are cited to show typical price changes in a commodity that fluctuates capriciously in price, not to exhibit the most extreme cases of such capriciousness.

The relative price computed from aggregate actual prices can be shifted at will to any base without error. This is evident when we consider the nature of such a relative price. The June relative price computed on the May base as 100 is $\frac{\$1.76}{1.27}$. Shifting this series to the June base by dividing by the June relative price gives the following: May relative price, $\frac{\$1.27}{1.76}$; June relative price, 100.

Individual commodity relative prices can thus be shifted to the base price of any period desired without error because the relative prices are simple ratios of actual aggregate prices. Dividing through by the relative price of any year or period merely has the effect of substituting the aggregate actual price for the base period as divisor in the formula for computing the relative price.

By the old method of computation, errors in price data were not only perpetuated but cumulated by means of the vicious method of averaging, to the fourth and fifth degree, averages of relatives calculated from different prices as bases and by the still more unallowable process of shifting every month the base of the relative prices, which could not be done without subjecting the relative prices to grave suspicion as a dependable means of representing accurately what was happening to prices. These inaccuracies, taken with the inflexibility of relative prices and indexes calculated by averaging relatives, made the changes in methods of calculation which have been carried out imperatively necessary.

W. C. MITCHELL: Professor Willcox remarked incidentally that no man is in a position to criticise the statistical work done by the federal government unless he knows intimately the whole set of

processes by which the final results are obtained—how the original data are collected in the field; how they are tabulated, summarized and averaged in the office; and how the textual explanations of the tables are prepared. I concur heartily in the justice of this observation. By rights, it rules me out of the discussion. For despite three brief periods of employment by federal authorities—the Census Office, the Immigration Commission, and the Bureau of Labor Statistics—I have but a limited acquaintance with the production of federal statistics. It is as a consumer of statistics that I speak—primarily as a consumer of statistics of prices and wages—and I recognize that the consumer's impressions may be mistaken. However, I give them for what they are worth.

The field work of collecting data respecting prices and wages seems to me better on the whole than the office work of making these data into finished bulletins. For in the bulletins I have found much that is not clear, and not a little that is patently misleading or flatly wrong. But in so far as I have been able to test the original data I have found that they are consistent among themselves and consistent with similar figures compiled by other investigating authorities. In short, they seem to have been collected honestly and intelligently.

The reason for the relative inferiority of the office work appears to lie in the organization of the office force. The chiefs of the bureau which has done most work in this particular field have all been forceful and capable men. The clerical force has stood on a level rather above that common to government offices. But this bureau has lacked an adequate staff of skilled statisticians capable of understanding the purpose of an investigation, and of directing the work of the clerks under the general supervision of the chief, of making the most intelligent use of the data collected by the field agents, and of preparing lucid text which tells what the tables mean. It goes without saying that the head of a bureau cannot give personal supervision to all the many tasks imposed upon his office; and if he has not assistants who are really capable investigators trained in the use of statistics, much of the work turned out will be mediocre in quality.

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The weakness of the organization in this respect arises from the fact that the bureau concerned can not offer a satisfactory career to capable men. Adequate salaries can not be paid, adequate recognition can not be given. A few men of the quality required have stayed by the bureau year after year, and worked efficiently under most discouraging circumstances. These individuals merit more honor than they will ever receive for the sacrifices they have made and the service they have rendered. But their number is by no means adequate. The efficiency of a government bureau cannot be maintained indefinitely by exploiting the statistical enthusiasm or the patriotic philanthropy of its staff.

If I am right about the chief cause of weakness in the statistical work done by the government, the remedy lies in the hands of Congress. What we may do as individuals to aid the heads of the statistical bureaus in securing adequate appropriations for their staffs is not much, but it is better than nothing. By using the statistics which are already being published, we can show that there is a public demand for work of this character. By using this material critically, we can show that there is need of improving the product now supplied. By seeking to put the blame for such faults as now exist upon the proper shoulders, we may perhaps bring home to some members of Congress the necessity of making better provision for the support of statistical work. If we can accomplish something in this direction as individuals, we can as members of the American Statistical and American Economic Associations probably accomplish more. Accordingly, I endorse heartily the plan of cooperative effort which has been outlined by Professor Willcox. But I anticipate that his committee will find that the measures of greatest practical promise for improving the statistical work now done by the government lie along the line which I have suggested.

W. S. GIFFORD: I wish to speak on the subject of Some Present Statistical Needs and the Statistical Work of the Federal Government. I mention *present* statistical needs, merely to remind you that it is not only possibly but probably a fact that the statistical needs of today differ somewhat from those of a not far-distant yesterday.

My time is too limited to bring evidence to prove this point, but the story of changed conditions of industry and the growth of large undertakings in business and social fields, with the resulting increased necessity for up-to-date statistics, has been so often told that it does not need repeating. The Federal Reserve Board, the new federal Trade Commission and the United States Commission on Industrial Relations are instances of new federal bodies that will have to rely largely upon statistics in their work.

The private organizations and societies and large business undertakings which must so rely are becoming almost innumerable. These recent developments mean that the field of the economist and the statistician has been extended, and that work somewhat similar to that previously done by the academic economist or statistician is now being done as a practical every-day affair by men by no means exclusively specialists in economics or statistics.

How then does the present statistical work of the federal government meet these rather new requirements? As in the past we still have the academic requirements and the needs of the specialist and student. That the statistical work of the federal government largely meets these needs, there seems to be little or no question. In fact, it cannot be said to fall far short of meeting the newer needs that are referred to, but, in the course of actual practice, some of these newer needs stand out as so important that, if they could be met a little more fully than at present, it would be a valuable help to all concerned.

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In the first place, when information on a given subject is desired. it is essential to know promptly and without too much specialized knowledge of all possible sources, just what is already available. just how much along the lines in question has already been done. Otherwise much time and expense may be wasted in duplicating information already collected or, what is still more serious, important decisions may be made more or less by guess, which decisions might have been based on facts already compiled. To find out what the federal government with its many departments and diversified interests has to supply in the way of statistics is, at present, to the ordinary busy man a complicated and difficult task. This statement may seem strange to the specialist who has become thoroughly acquainted with the duties and work of the federal government and with the various sources of information regarding that work, for there are at present many diversified sources of information as to the statistical work being done by the government.

What I plead for, however, is a subject index which could be published from time to time, furnishing a convenient source of information for all the statistical data available in the various departments of the federal government. This should, of course, be kept up-to-date by, say, monthly bulletins and periodical revisions of the complete index.

I cannot pass this thought by without suggesting that a subject index of statistical information available not only in the federal government but state, municipal and private fields, although it would be a colossal undertaking, would in its results more than justify its expense.

As I said before, many people today use statistical information who are not students or specialists. Now this idea presents another need. These are busy people in their particular work, whatever it may be; they look in a document for certain figures and they do not always read the text which explains those figures. It is, therefore, important to prevent serious mistakes that all tabular statements of figures should be self-explanatory; that is, the limits of the use of the figures in the table should be shown by either the heading of the table or a footnote. If absolutely necessary, the footnote could refer to certain pages of the text with a statement that the figures should not be used for any purposes without first having read the text.

Again, the question of speed is important, for figures become less valuable for many purposes in direct proportion to the remoteness of the date of which they are representative. Tables first with only the essential text, issued promptly, and analytical analyses issued later might well be the standard method.

Lastly, I would say a word about the adaptation of the kind of statistics prepared to the kind of statistics needed. Anything which can be done to further improve the direct relation between the men who use the statistics and the government department which collects them would be decidedly worth while. We are discovering every day that we want statistics of a sort which we have not yet gathered. It is, furthermore, possible that we are gathering statistics of a sort which we no longer need. If there were formed a standing committee or, better still, an official commission of some sort, with representatives of such associations as the American Economic Association and the American Statistical Association, together with, let us say, the American Bankers Association, the United States Chamber of Commerce, etc., and representatives of the government statistical departments, it would be to the advantage of us all. It would provide a definite opportunity for us to present such statistical needs as our own individual experience develops, to a body which would be able to take some practical action in the matter.

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It is a fact that a great deal has been done and is being done along these various lines, but perhaps still more can be done to hasten them along to a satisfactory conclusion. There can be no question as to the need of having them ultimately worked out.

Briefly, then, present statistical needs require of the federal

- 1. A subject index of all statistical data available.
- 2. Statistical tables that are self-explanatory.
- 3. Greatest practical speed.
- 4. Some organization, composed of government and private individuals to assist in adapting the kind of statistics gathered to the kind of statistics needed.

Harvey S. Chase: The subject which I wish to discuss is Uniform International Financial Statements. In order to comply closely with the excellent rule of your managing committee which restricts the time allowed to each speaker at this discussion, I must present at once certain conclusions which I have reached upon this topic and leave the explanations for another time.

The suggestion embodied in my subject came to me from Dr. S. N. D. North of the Carnegie Endowment for International Peace and I have been permitted by Dr. North to see the correspondence with officials of the International Statistical Institute, whose permanent headquarters are at the Hague and whose last international meeting was held at Vienna in August, 1913. This correspondence has in view a possible working coöperation between the Carnegie Endowment, and a Committee of the International Statistical Institute, or other eminent statisticians, for the purpose of developing a plan for the compilation of uniform international financial statistics; in other words, to establish what the world has long needed, a basis for an international budget.

The Institute officials, particularly Dr. Zahn of Munich, have been interested for years—even so far back as 1853—in questions relating to standard schedules for uniform financial statements by all nations. Much hard work and profound thinking have been done by Dr. Zahn and others upon pro forma drafts for such schedules.

It is evident, however, to me, after some fifteen years' experience in establishing uniform financial statements for municipalities, for states, and for the national government, that these preliminary drafts have been somewhat too ambitious, much too extended

and detailed, for the immediate practical purpose. It seems to me that it is necessary, if results are to be attained which will justify the labor and expense involved, that attention shall be concentrated at first upon relatively few fundamental classifications, leaving others—even the finer details of these fundamental classes—to be worked out later in the natural course of development. By this I mean that if we wait for a perfect theoretical system to be devised, including all the detailed subdivisions necessary to embrace the requirements for every nation, we shall—owing to the magnitude and the diversity of purposes, methods, and accounts of the various nations—postpone for years the beginning and final accomplishment of our desire, namely: to obtain comparisons of governmental costs in those nations.

On the contrary, if we are content to exhibit only large, fundamental functions in our first classification, we may reach important results almost immediately, and thereafter we may subdivide and reclassify these results according to the increase of our knowledge of the facts and as the awakening interest of the statisticians of the nations shall provide.

This course was the one pursued in municipal affairs in this country. First, in 1899, one city-Newton, in Massachusettsadopted the so-called Uniform Classification of Municipal Expenditures which had been prepared by a committee of the National Municipal League. As soon as the annual report of that city was published and it became evident that even one city had adopted the classification, the latter took on a practical character. Other cities adopted it of their own motion or under supervision of the League's committee, and within two years a whole state, Ohio, had applied it to all her cities, eighty in number. Then New York adopted it in somewhat improved form and Massachusetts followed, applying the uniform classification to all her cities and to all her towns so far as their annual reports to the commonwealth were concerned. The United States Census-Division of Wealth, Debt and Taxation—took it up and soon there was developed an actual. workable, uniform classification of municipal expenditures and revenues which was applicable to any and to all cities throughout the country.

Now, prior to the practical application in Newton, the National Municipal League had been debating the form of standard classification for some years, without results, for the reason that no two people could agree, or can agree, upon all of the elements of any

EXHIBIT OF THE EXPENDITURE SIDE OF THE NATIONAL BUDGET

Prepared by Harvey S. Chase, C. P. A., from the "Estimates" submitted to Congress by the Departments and Offices for the Current Fiscal Year ending June 30, 1915, and the New Fiscal Year ending June 30, 1916. Classified by Purposes of Expenditure (Functions of Government).

GENERAL SUMMARY, TOTAL ESTIMATES

	F	Fiscal Year 1914-15	14-15	Fiscal	Fiscal Year 1915-16	
Totals for War Functions (National Defense ex-	Operation and Maintenance Expenses.	Operation and Construction and Total Maintenance Improvement Estimated Expenses. Outlays, Expenditures.	d Total Estimated Expenditures.	Operation and Maintenance Expenses.	Operation and Construction and Total Maintenance Improvement Estimated Expenses. Expenditure	mprovement Estimated Outlays. Expenditures.
cluding "sinking-fund" estimates	\$409,286,834		\$56,895,356 \$466,182,190	\$397,204,573	61,867,230	61,867,330 \$459,071,803
cluding "Postal" and "sinking-fund" estimates Totals for Postal Service. Totals for General Governmental Functions. Totals for Local Governmental Functions.	110,074,651 308,803,117 61,839,638 11,547,132	79,239,444 6,698,084 3,580,521	79,239,444 189,314,095 308,803,117 6,698,084 68,537,722 3,580,521 15,127,653	123,651,137 299,175,859 59,760,946 10,751,495	72,655,130 2,413,025 2,572,739	196,306,267 299,175,859 62,173,971 13,324,234
Grand Totals, all purposes, except "sinking-fund"	901,551,372		146,413,405 1,047,964,777	890,544,010	139,508,124 1,030,052,134	1,030,052,134
"Sinking-Fund" estimates, having no validity	60,717,000		60,717,000	60,723,000		60,723,000
Grand Totals, per "Book of Estimates"	\$962,268,372	8962,268,372 \$146,413,405 \$1,108,681,777	1,108,681,777	\$951,267,010	8951,267,010 \$139,508,124 \$1,090,775,134	1,090.775,134

A. EXPENDITURES FOR "WAR" OR NATIONAL DEFENSE FUNCTIONS Army, Navy, War Pensions, War Debts

Estimates for Costs of Present-day National Defen

	815,943,824 \$109
	\$93,447,100 146,440 724,870 376,620 206,290 453,878
	\$100,219,712 \$14,379,198 \$114,628,910 148,040 730,570 378,670 208,581 456,583 456,598
1	\$100,249,713 148,040 730,570 378,670 208,581 456,598
Current Charges. Annual Anneaniations (1)	Defense by land (Military). Administration: Secretary of War. Adjustant-General's Office. Engineers and Insular affairs. Other offices, War Dept.

390,924 146,440 724,870

376,620

45,332,901 111,991,281,091 93,590

96,558,480 83,580 110,790

76,460 108,790

42,490,734 140,802,040

26,311,306 76,460 108,790

Defense by sea (Naval)
Administration: Secretary of the Navy
Bureaus: Navigation, Intelligence, Records

85,382,801 111,891,281 83,580 110,790 128,430 273,740 8,000 113,227	,284,625 253,900,070 582,605 184,002,256	437,902,326 13,000,000 37,000,000 2,730,000 5,439,477	496,071,803	459,071,803
16,4332,801	61,284,625	61,867,230	61,867,230	\$61,867,230 \$459,071,803
96.558.480 183,680 110,790 128,430 273,740	192,615,445	376,035,096 13,000,000 37,000,000 2,730,000 5,439,477	434,204,573	\$397,204,573
42,490,731 140,802,010 76,460 108,730 106,430 304,660 2,000 190,013	23,424 186,697,951	444,837,713 13,000,000 37,000,000 2,770,000 5,574,477	503,182,190 37,000,000	\$56,895,356 \$466,182,190
12,190,731	56,871,932 23,424	56,895,356	56,895,356	\$56,895,356
98,311,306 76,460 108,790 106,430 301,660 188,013	201,267,830	387,942,357 13,000,000 37,000,000 2,770,000 5,574,477	446,286,834	\$409,286,834
Defense by sea (Naval) of the Navy Administration: Secretary of the Navy Bureaus: Navigation, Intelligence, Records. Bureaus: Engineering, Repairs, Yards and Docks. Operation and maintenance (2/3) of the State, War and Navy Building (2)	Totals for current national defense	Totals for current national defense. Fixed Charges. Permanent Appropriations. (1) Interest on war debts Sinking-fund provisions for war debts (3). Trust funds, established by war requirements. Special funds and acets, for war purposes	Grand Total for War Functions. Deduct "sinking-fund" (3)	Total estimates for actual War Functions

FOOTNOTES

(1) These terms "annual" and "permanent" might be better stated "current" and "recurrent," as all appropriations are enacted annually by Congress, even though the amount is not fixed (indefinite), or the time is not fixed (indeterminate).

(2) Operation and maintenance expenses of office buildings, rents, etc., are mainly included in item in "operation and maintenance of public buildings" General Governmental Purposes, because these expenses cannot be separated, under present methods of bookkeeping.

Sinking-fund provisions are negligible; merely bookkeeping items having no actual existence. There are no securities and no cash in the "sinking fund." so-called

See also additional estimates under "permanent appropriations." (4)

Including Bureau of Naturalization, \$250,000 in 1914-15, and \$307,950 in 1915-16.

This amount should be distributed in detail to the various departments and divisions.

Panama Canal is included in "Peace" estimates although a good case can be made out for including it, or a large portion of its cost, under Approximately one half of this is offset by District of Columbia revenues.

"War" estimates. In 1915-16, however, certain fortification estimates are included under "War Functions."

B. EXPENDITURES FOR "PEACE": CIVIL, SOCIAL, AND ECONOMIC FUNCTIONS State, Interior, Agriculture, Commerce, Labor, Etc.

		antend, Agilculture,		commerce, Labor,	Etc.		
Current Charges. Annual Appropria. I. Natural Resources, Agriculture,	iations. (1) Etc.	Fiscal Year 1914-15 Operation and Construction and Total Maintenance Improvement Estimated Expenses. Outlays. Expenditure	Fiscal Year 1914-15 and Construction and Tree Improvement Est outlays. Exp	d Total Expenditures.	Fiscal Operation and Maintenance Expenses.	Fiscal Year 1915-16 Operation and Construction and Maintenance Improvement Expenses. Outlays. E	d Total Estimated Expenditures.
2. Promotion of agriculture (4)	re (4)pography, regulation of	8,951,617	47,500	8,999,117	10,562,555	6,750	10,569,305
Water power, etc. 3. Promotion of forestry. 4. Promotion of fisheries. 5. Care and utilization of public lands. 6. Meterological research, weather bureau, etc. 7. Statistical research, census, etc.	forestry. forestry.	2,284,520 5,390,741 1,155,730 3,184,920 1,667,270 1,709,720	477,590 255,900 10,000 3,000	2,284,520 5,868,331 1,411,630 3,194,920 1,670,270 1,709,720	2,345,230 5,386,256 1,096,084 3,098,824 1,703,750 4,342,540	3,000 467,000 203,400	2,348,230 5,853,256 1,299,484 3,098,824 1,703,750 4,342,540
	coinage, etc	5,862,452 3,578,305 837,175	395,000	5,862,452 8,578,305 1,232,175	6,213,874 3,406,585 781,355	256,000	6,213,874 3,406,585 1,037,355
Improvements of rivers and harbors	and harbors, roads, surveys, engi-	3,197,815	38,286,080	41,483,895	7,721,435	45,665,788	53,387,223
Panama Canal (8). 5. Regulation of banking. 6. Regulation of putents and copyrights.	neering, etc. mac Canal (8) lation of banking. are, Labor, Etc.	12,484,004 1,546,395 194,240 1,626,300	22,228,760	15,163,704 23,775,155 194,240 1,626,300	12,509,057 6,429,197 216,740 1,584,050	2,454,000	14,963,057 16,941,637 216,740 1,584,050
 Promotion of public health (4) Promotion of education and recreation (4) Promotion of the welfare of the laboring classes 	alth (4)and recreation (4)	4,087,062	1,271,014	4,191,762	4,425,188	953,708	4,425,188
and regulation of labor (5)	and regulation of labor (5)	4,068,250 9,295,715 1,565,349	812,200 1,635,400 455,000	4,880,450 10,931,115 2,020,349	3,986,150 9,449,013 1,466,356	382,000 706,000 3,000	4,368,150 10,155,013 1,469,356
Foreign affairs and relations (4)	tions (4)	3,920,970	477,000	4,397,970	4,539,766	23,044	4,562,810
1. Administration; Dep't of State. 3. " Interior 4. " Agriculture 6. Operation and maintenance. (1/3) State, War	of State. Interior Agriculture Commerce Into	354,060 634,040 765,988 252,160 183,040		354,060 634,040 765,988 252,160 183,040	378,580 635,830 896,287 300,220 165,060		378,580 635,850 896,287 300,220 165,060
and Navy Building	and Navy Building (2)	94,007	1,000	200,56	52,613	4,000	56,613
		AC 041 001 6	130,844 14	0 Set 086 II	105 CH3H-A07	61,640,130 156	628,537
I. Interest on bonds, other than for war purposen. II. Suking-fund provisions for other than war purposes (3) III. Trust funds provisions for other than war purposes		93,717,000 7,772,730	8 88	23,717,000 7,772,730	23,723,000	43,7	#,###,### 23,723,000
	1			21212500 2 36	1,638,500	7.6	7,638,500

7,638,500

IV. Special funds and accounts for isocial and and

11.	interest on bonds, other than for war purposes. Sinking-faul provisions for other than war pur- poses (3)	93,717,000		23,717,000	28,7.28,000	ı	occionate
11.	III. Trust funds provisions for other than war purposes	7,772,730		7,772,730	7,638,500*		7,638,500
>	IV. Special funds and accounts for "social and economics" in functions—viz: I. Promotion of Agriculture: Co-operative agricultural extension work				1,080,000		1.080.000
	Keclamation of arid lands Colleges of agriculture and mechanic arts Experiment stations etc	2,500,000	000,000,000	9,000,000	2,500,000 71,000	0,000,000	9,000,000 2,500,000 71,000
		2,000,000	679,600 420,000	2,000,000 2,000,000 679,600 420,000	2,000,000 100,000 274,600 52,400	1,500,000	2,000,000 100,000 1,774,600 412,400
		0000088		000,082	280,000		280,000
		3,000,000		8,000,000	3,000,000		3,000,000
		600,000 225,000 125,000		925,000 125,000	600,000 125,000 100,000		600,000 125,000 100,000
	Education of blind, etc	11,000		11,000	10,000		10,000
		800,000		800,000	000,000		000,000
-	-	25,000		25,000	\$5,000		25,000
		65,000		65,000	65,000		65,000
L	Totals of special funds and accounts	11,779,200	10,099,600	21,878,800	10,983,000	10,860,000	21,843,000
	economic" functions	381,500		381,500	176,230		176,230
FO	Totals for Peace Functions (except Postal) Deduct "sinking-fund" (3)	133,791,651 23,717,000	79,239,444	213,031,095	147,529,137	72,500,130	220,029,267
6-4	Totals, less sinking-fund, for "Peace".	110,074,651	79,239,444	189,314,095	123,806,137	72 500 130	196 908 967

C. EXPENDITURES FOR POSTAL SERVICE FUNCTIONS

Estimates for Doctal Service	Piscal Operation and Const Maintenance Impr Expenses.	Fiscal Year 1914-15 nd Construction and Total re Improvement Estimated Outlays. Expenditures.	Fiscal Vear I Operation and Constr Maintenance Impr Expenses.	Fiscal Year 1915-1916 Pertion and Construction and Inprovement Estimated Expenses. Outlays. Expenditures.
Postal service, payable from postal revenues Administration of Postmaster-General's Dept	306,953,117	306,953,117	297,355,164 1,820,695	297,355,164
3. Operation and maintenance of post offices, etc (2) Totals for Postal Service (2)	308,803,117	308,803,117	299,175,859	299,175,859

D. EXPENDITURES FOR GENERAL GOVERNMENTAL FUNCTIONS Covering requirements both for purposes of war and for purposes of peace

	1,863,217	211,840	17,084,460	7,345,354	5,130,525	482,240	1,796,520 622,143 2,592,560
	5,000		50,000		2,130,525	127,500	
	1,858,217	211,840 466,085	17,034,460	7,345,354	5,000,885	354,740	1,796,520 622,143 2,592,560
	1,857,787	210,440	17,372,650	8,098,412	6,302,584 6,022,408	592,583	1,890,770 777,711 2,694,620
	8,500	5,000	125,000		6,302,584	127,000	
	1,849,287	210,440	17,247,650	8,098,412	5,892,408	465,585	1,890,770 777,711 9,694,620
Legislative, Executive, Judicial, Etc. Current Charges, Annual Appropriations (1) I. Legislative:	The United States Senate The House of Representatives The President Vice Desident at	utive offices. Civil Service Commission.	Collection of the revenues, etc.—Treasury General accounting and auditing.—Treasury. Operation and maintenance of public build-	ings and grounds (2)	and grounds Public printing, all departments (6). General Supply Committee.	Reference and library purposes. Distribution of documents.	Administration of Treasury Dept. Administration of Dept. of Justice Detection of crimes, legal advice, etc. (Justice)

6,453,380 8,490,500 175,500 200,000	62,173,971	233,800 181,000 12,909,434	\$13,324,234
	2,413,025	2,572,739	82,572,739
6,453,380 8,490,500 175,500 200,000	59,760,946	FUNCTIONS 233,800 181,000 10,336,695	\$10,751,495
6,299,110 8,470,000 175,500 225,000	68,537,722	MENTAL 304,638 321,000 14,491,615 10,400	\$15,127,653
	6,698,084	GOVERN 3,580,521	\$3,580,521
6,299,110 8,470,000 175,500 225,000	61,839,638	FOR LOCAL 304,638 321,000 10,911,094 10,400	\$11,547,132
III. Judicial: The Supreme Court and other courts Fixed dearges. Permonent Appropriations (1) Revenue refunds, drawbacks, etc Retired judges, Hawaiian judges, etc Revenue Collection, night services	Totals for General Governmental Functions	E. EXPENDITURES FOR LOCAL GOVERNMENTAL FUNCTIONS 304,638 304,638 233,800 District of Columbia (7)	Totals for Local Governmental Functions

detailed classification. Some will favor one location and some another location for the same function or item. The disagreements are without end, the disputants seldom if ever reach a conclusion upon these theoretical details. For example, if we had not immediately tried out the classification at Newton, just as it was, in 1899, it is possible that the various contestants would be discussing yet, whether Hospitals should be associated with Charitable Institutions or with Conservation of Health and whether cemeteries should be classed as Sanitary Measures or as Public Utilities. Therefore the important thing is to get the movement started in practice on a simple but fundamental classification, which can be agreed upon promptly by a majority of those who have expert knowledge of the subject.

What appeals to me concerning the present matter-in-hand is this, that a committee of the Statistical Association or of the Economic Association or, better, of both combined, should be appointed. Not too large a committee, but one whose members can meet conveniently and regularly and thereby accomplish definite results within a relatively short time. This committee should adopt, after proper discussion, a preliminary classification of national functions with such subdivisions as may be deemed practicable, and then the new budget of the United States of America for 1915-16 should be drawn up by the committee and published in accordance with these classifications at the earliest possible moment-not a year or two hence but right off now, within two months or three at the outside. Then, the practicability of the classification having been established through adjustments made during this experience, the published results should be spread broadcast in this country and abroad for criticism, suggestion, and imitation. The committee, also, should be authorized to consult and cooperate with foreign committees, which have been, or may be, appointed for the same purpose.

Now, what are the fundamental functions common to all, or nearly all, the nations? Evidently—we have the proof before us—war or national defense is one of them; the most important single function of them apparently. What is another? Evidently national indebtedness is another. This includes debts, sinking funds, interest, all matters relating to national debts, funded or floating. Again, national administration is universal in some form. The functions of legislation, execution (administrative), and judicature are everywhere present. They can be classified without

serious difficulty; by this I mean the higher administration, the "overhead" costs of national government.

So far we have mentioned three large, fundamental functions, each capable of simple subdivisions of uniform and standard character. With these three we shall have covered much more than half, probably three quarters, or even more, of the total costs of each national government. We may well be satisfied with these three if it should prove impracticable to advance farther this year. I am convinced, however, that we shall find that we can advance quite a little farther almost immediately. For instance, there are the "public service" or "public utility" functions, such as railroads, telegraphs, telephones, mail service, and express service. Also there is "forest service," and "agriculture," as well as "commerce," and various other functions which can be classified, in big subdivisions at least, and which will be fairly comparable among the nations. Soon, however, we should get into serious difficulties and would be obliged to stop, for the present.

"To stop" reminds me that my time is expiring and therefore I desire to suggest to you the advisability of the appointment of a joint committee, such as has been outlined, to consist of, say, six persons, one half from each Association. This committee should be instructed to take hold immediately of our subject and prepare the fundamental classifications promptly. If such a committee does its work effectively, the results should be of great importance and the work should be a means of gratification to the members of both of your learned bodies in the future.

ROGER W. BABSON: As Mr. Chase has so ably suggested, some of us are much interested in certain plans for standardizing and jointly publishing certain international statistics for which statesmen and business men are so much in need. We further believe that the development of the statistical work of the United States government has reached a point where to longer go ahead without regard to what other nations are doing will mean a lot of undoing later.

In view of the fact that President Koren has given me a place upon this program to tell about this work, I feel that the least I can do is to reciprocate by basing the first half of my remarks upon a most able paper upon the subject which he read last year in New York. Our argument in brief is as follows:

For years it has been the hope of statesmen and economists, as well as of statisticans, that the censuses of the principal countries of the world might become so standardized that it will be possible to make accurate comparative studies of the true growth and relative prosperity of the respective nations. It has not been contemplated that the national censuses should follow the same pattern in all details, but that they should deal with specified subjects in a certain uniform manner, such subjects to be chosen as will afford a fact-basis for determining the economic and social standing and development of each

The possible utility of a world standard of values as applied to nations is infinite. The interdependence of nations in things that make for prosperity and general well-being is daily becoming more obvious. Back of much of the insecurity and strife in international commerce and industry, back of the halting way in which we endeavor to meet common social problems, back of the international jealousies and suspicions that always threaten, lurks ignorance of national and international conditions and relations. It is the ability to strike a reliable balance sheet that has made possible the huge systems of combinations in commerce and banking. Is not the use of a balance sheet equally urgent in the affairs of nations if they are to be directed for the common good of all?

Of the many by-products to be derived from standardizing knowledge in the manner indicated, how it will point to opportunities in business, prevent losses through foreign investments and commercial dealings; how it may help to a better distribution of population, as well as of products of agriculture and industry; how it may reveal fundamentals in educational systems that make for real prosperity,

there is no time to speak.

The idea of a standard international census has had many advocates within bodies like the International Statistical Institute, and the International Institute of Agriculture at Rome. Recently, at various gatherings here and abroad and through publications, the idea has won new momentum. Everywhere it meets hearty approval. Boards of trade, producers and bankers, no less than statisticians, economists, and peace advocates, readily see its wide bearings.

Of course, such a development in statistics will not be brought about at once. One feature at a time, however, can be taken up and a beginning made very soon. Mr. Harvey Chase has already admirably shown the need of standardizing the budgets of the leading nations, and other members of our societies have at times pleaded for conformity in other statistical work. One specific illustration is the work being done by Professor Irving Fisher of Yale, for standardizing the commodity prices indices of the different nations. Very important fiscal, industrial, and social movements are absolutely held up for lack of scientific and comparable figures on the cost of living.

Mr. Meeker has referred this morning to the great work which he is doing toward "setting our own house in order"—and yet he is being forced to do this independent of any help from other nations, which makes it almost certain that some day it must all he done over again. The same condition of affairs exists in connection with our figures on exports, imports, and a host of other subjects. Every conscientious governmental official is up against this same problem as is Mr. Meeker, while the bankers, manufacturers, and merchants of the country are all at sea.

But some say: Why trouble about so-called international statistics until we get better national statistics? Why try to standardize the statistics of the world until we standardize those Why attempt to make England, Gerof our own country? many, and the other great nations conform to the same methods of compilation until we get California, Illinois, and Massachusetts to agree? At first thought these questions seem reasonable, but there are good answers to them all. First, the very time to standardize such statistics is before they are "perfected" in the different countries. The more incomplete they are, the easier it will be to induce the different nations to adopt the standardized forms. The longer the change is delayed, the more difficult it will he to get them to make the much desired changes. Secondly, it would be very much easier to perfect the compilation and methods used by the different states of our own country if we had some international standard to refer to. California may not want to change her system to please Massachusetts, nor to copy a standard set by Illinois, but she could be much more readily induced to adopt some international standard prescribed by an international commission.

Members of the American Statistical Association and members of the American Economic Association: this seems like a large order, but the statistical work of the United States government, to be of real value, depends upon the placing and the filling of such an order.

But since our last meeting something has happened which may help very much in this development. I refer to the great European war, which may result in some sort of a commercial alliance that will assure equal protection to the commerce and markets of all nations.

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The Hague Tribunal, which has been the work of pacificists and jurists, has signally failed. We have learned that little progress can be made for world peace through sentimental plans for arbitration. We see in the newspapers of the past few days, however, the beginning of another great movement under commercial and shipping interests, which appears very hopeful. This movement, moreover, is even being officially endorsed by the diplomats of our sister republics at the south, and I might add that I leave in two weeks for Chile and Argentina in connection with this work. In fact the "Neutrality Commission of Nine," recently appointed by the Pan-American Union is a most hopeful sign that a commercial alliance may be formed which will make another such war very improbable.

If the leading nations come together in a commercial alliance to neutralize the seas, regulate trade-barriers, and assure all member nations equal commercial protection, that will be the beginning of a great development in international statistics. It will lead to standardizing the censuses and all the vital, commercial, and industrial statistics of the different nations. As the development of the simplest form of national government was dependent on collecting statistics for proportioning representation, taxation, etc., so the development of any international alliance or federation will carry with it the extension and standardization of international statistics.

Did you ever think that political revolutions exist today as in the past, except that we make armed fighting unnecessary? Every four years, before there is a chance for an armed conflict, we count the conflicting parties and if we see that one side has enough more males to win than the other we call them the victors, as the result of such a count. In other words we let both sides fight, but insist that they fight statistically with ballots, instead of in a mediaeval fashion with bullets. Hence I believe that not only will this new international movement bring about the much hoped development of international statistics, but that the wars of the future may be fought with statistics and ballots instead of with guns and bullets. Certainly it must be with one of these two classes of weapons, as the world can never remain in status quo as the pacificists so supinely hope. In view of this possible development I conclude as follows:

1. That, granted the existence of certain glaring needs to which President Koren, and Messrs. Willcox, Meeker, Mitchell,

Durand, and Gifford have so ably referred, the statistical work of the United States government has now reached a point where it should at once seek to coöperate with other governments in standardizing the census and statistical work of all nations.

2. That this means the formation of some sort of official international census office entirely apart from the able work of the International Statistical Institute at the Hague.

3. That the duty of the American Statistical Association, the second oldest statistical association in the world and the only one of any consequence in a now neutral nation, is to call an international conference to consider this project.

4. And finally that in the meantime we individual members work and talk in favor of this proposed commercial alliance and the neutrality plan of our South American brothers, for, if these are successful, international and national statistics will be put on a plane higher than we have even yet dared to hope for.

John Cummings: Members of the Associations may be interested in an instance of coöperative statistical work in which the coöperating agencies included two federal bureaus, two private associations or foundations, and a local public agency,—these being the coöperating agencies in a recently completed survey of industries and schools in the city of Richmond, Virginia. The report of this survey will shortly issue as an official publication of the federal government. Specifically the coöperating agencies in this work were the following:

1. The National Society for the Promotion of Industrial Education, which was active in organizing the survey, and assumed certain expenses for printing bulletins bearing upon the work, and for services of its office force. This society has just recently, some three weeks since (Dec. 9-12, 1914), held its annual convention in Richmond, practically the entire time of the convention being devoted to a consideration of the results of the survey, and to the formulation of recommendations based upon the findings. It may be noted, as an indication of the value of such work, that the superintendent of the Richmond schools stated to the convention that the survey had outlined a program of procedure in industrial education providing for the development in Richmond during the next ten years. Incidentally he stated that the survey had already saved the city \$250,000.

2. The second cooperating agency was the city of Richmond

itself, represented by the superintendent of schools and by a local committee of citizens. Richmond provided funds to cover the cost of making a survey of its industries.

3. The third cooperating agency was the Russell Sage Foundation of New York City, which through its educational director made the school survey, and assumed a large portion of the cost of the school survey.

4. The fourth cooperating agency was the United States Bureau of Education represented by its expert in industrial education, who assisted in the establishment of prevocational and vocational courses organized upon the basis of the survey findings and recommendations.

5. The fifth cooperating agency was the United States Bureau of Labor Statistics. This bureau's expert on industrial education was given six months' leave of absence to enable him to serve as director of the industrial survey. The Bureau of Labor Statistics, also, is to issue the full report of the findings and recommendations, which will probably run to 300 or more pages, and will include the four large text-charts, a few copies of which, by the courtesy of the Bureau, I have been permitted to bring to this meeting for distribution in case any members present care to have them. The Bureau by assuming the cost of printing these charts and the full report has made possible the publication of both the charts and the report in the proposed form. chief editor of the Bureau, Mr. Verrill, has served upon the editorial committee of the survey, and through him and Commissioner Meeker the Bureau has cooperated to the full extent of its authority to do so.

Another department of the federal government may be mentioned as being implicated indirectly in the undertaking—the Department of Commerce,—since Secretary Redfield of that Department is President of the National Society for the Promotion of Industrial Education. The Commissioner of Labor and the Secretary of Commerce manifested their interest in the work by attending the convention held in Richmond to consider the findings of the survey, and by participating in the proceedings.

It may be of interest to note, also, since there has been some misunderstanding as regards the attitude of organized labor with reference to the institution of industrial education even in the public schools, that in the work of gathering the data the agents of the survey had the full coöperation of the local labor unions,

and that Mr. Gompers, President of the American Federation of Labor, also attended the convention in Richmond, and in an address heartily endorsed the proposed program.

The character of the data gathered relating to occupations may be inferred from the charts which present in parallel columns a statistical analysis of some fifty-six occupations in the printing, building, and metal trades and in the tobacco industry. Occupations in retail stores are included in the report, but have not been charted. The report contains also the full analysis of each occupation briefly summarized on the charts together with a very considerable amount of tabular matter and general text dealing with the industrial character of Richmond.

The data for the charts and for the tabulation were gathered upon schedules and through personal interviews with employers and employees.

The schedule inquiries related to such topics as hours, wages, seasonal fluctuation, age of entrance to trade, extent to which the trade could be learned in the shop, years required to learn the trade, age period of maximum productivity, source of labor supply, the demand for labor and whether the demand is increasing or decreasing in Richmond; the conditions of employment that involve physical or nervous strain, that stimulate or that narrow or restrict development, or are in other respects important as affecting the welfare of the worker; the requirements as regards general, trade, and technical education of the worker; the line of promotion in the shop; provision made in the shop for systematic instruction of apprentices and of journeymen; the common deficiencies of workers; what training the school ought to give the boy or girl before he or she enters the shop; what it ought to give for the apprentice and for the journeymen in the shop, by means of continuation classes, -and other facts of importance in constituting a statistical basis for organizing industrial education.

The charts summarize briefly a portion of the data gathered on these schedules and from other sources. In the case of each occupation shown, the analysis begins with a brief description of the nature of the occupation itself, and continues down the column covering the points which have been specified.

Consistently with the purpose of the industrial survey, that is, to provide a basis of statistical information relating to industrial

occupations in the city of Richmond upon which to base a system of industrial education in public schools,—and while the work was still in progress, courses were organized in response to requests coming from the workers themselves, for molders, plumbers, electricians, and for workers in other occupations.

It is assumed as a principle justifying such surveys that industrial education must be intimately related to specific local industrial needs-that it must be based upon data relating not to occupations in general, but to occupations as determined by the industrial development of the community in which that sort of education is undertaken-taking account, for example, of the extent to which processes and employments in the given community have been specialized. In the survey of Richmond's building trades some fifteen distinct occupations could be defined, but if the survey had been in New York City the number of distinct occupations in the building trades would have been very much greater. In Richmond the carpenter may have occasion infrequently to lay a parquet floor; in New York the parquet-floor layer may not be required even occasionally to do any other sort of work. In general the needs of Richmond as regards industrial education are local and peculiar, and industrial courses established in Richmond should, therefore, be unique, reflecting the industrial character of the community, and being modified and developed as the local industries change. In accordance with this principle the data upon which to base industrial education in any community must be gathered in the workshops of that community. This makes the basis of industrial education empirical and It makes the problem of industrial education essentially a local municipal problem. It assumes that no system of industrial education devised for one community is adapted to the needs of any other community.

If the problem of industrial education is so essentially local in character, what interest has the federal government in the character of Richmond's industrial education? The answer is, of course, obvious. No social problem is purely local, and while industrial education must, if it is to be efficient, be differentiated locally, it is, nevertheless, in the aggregate a national affair. The federal government representing the country as a whole in its industrial development and competition with foreign nations, is interested in the extension of practically efficient industrial

education as a national asset; just as Richmond in its industrial development, in competition with other cities, is interested in the development of practically efficient industrial education as a municipal asset.

Formal coöperation, such as has been outlined, between public and private agencies in the actual field work of statistical inquiry may seem somewhat inconsistent, not only with official dignity, but with the general principle that public agencies must not engage in private enterprises. This appearance of inconsistency arises from a failure to recognize that private associations may be engaged in work which is clearly affected with the public interest. Where this is the case coöperative participation of federal bureaus in rendering statistical service is entirely proper as a public function. The extent to which government bureaus can coöperate with private agencies in statistical work is obviously limited to such enterprises as are clearly affected with the public interest, and in general the possibility of coöperation is determined by the character of the private agencies.

The number of responsible, permanent private foundations and associations which represent important social interests is very considerable and is increasing. These private organizations have arisen in response to recognized social needs. Immigrants stranded in our large cities, for example, constitute a social problem, and a league for the protection of immigrants is organized. The need for industrial education becomes pressing and a society for the promotion of industrial education is organized. Conservation of soil, water-power, and forests is the basis of private association. In a word every important social need is bound sooner or later to become the basis of organization. Such organizations are national in character. They represent national interests and, when the purposes of these organizations are consistent with the public interest, coöperative participation by bureaus of the federal government in the work which they are doing would seem to be a natural procedure.

Incidentally it may be noted that the difficulties in the way of such coöperation are in some respects less considerable than in the case of public agencies. Public agencies, state or municipal, are essentially local—essentially not national in character. Every public agency has its geographic field of operation defined in ordinances and statutes. Such agencies, moreover, operate under a

rigid legal definition of powers and functions, which in many instances constitutes a barrier to effective coöperation.

In the case of private agencies there is no rigidity of legal status to be broken down. It may be noted, further, as a justification for coöperation with private agencies that they, more frequently than public agencies, represent specific social problems national in scope,—that they represent live interests which have developed in the community,—that they represent what the community is thinking about; whereas the public agency or bureau represents a traditional interest as defined in more or less permanent statutes and ordinances. The private agency may infuse inspiration and motive into official routine,

The advantages of cooperation in the instance which has been noted will be obvious, and it will, I think, be clear that equally great advantages may result from similar cooperation in other lines of work where permanent responsible private agencies are in the field.

All of the work on the Richmond survey was done under the direction of professional experts, who prepared the schedules and supervised the field work and the tabulation of the data. Such work, if it is to be of value, must be done by professionals, and it will be obvious that cities generally cannot maintain corps of experts for this work, since in the nature of the case the work is not as regards any single city continuous.

This is the condition which perhaps more than any other makes cooperation of the federal government essential. A municipality undertaking such work independently may find it necessary to depend upon inexperienced service. Without cooperation, each survey is experimental and the data gathered relating to occupations and industries in different cities acting independently are bound to be of varying value and character.

As regards the country as a whole, however, assuming that cities generally undertake such surveys, the work is continuous, and bureaus of the federal government can, therefore, organize on a permanent basis for the promotion of such undertakings.

While the statistical analysis of occupations undertaken in Richmond was undertaken for the specific purpose of providing a basis of industrial education in that city, the data gathered are of general economic significance, being such as must, to a greater or less extent, underlie economic speculation regarding industrial conditions and employments. The significance of the data will obviously increase in proportion as the number of cities covered increases, and in proportion as the work is organized and conducted in accordance with some uniform scheme. Coöperation of the federal bureaus would seem to be an obvious way of securing this uniformity in method and data.

Finally, it is of importance that the schedules used in such work shall be subjected to scientific criticism and that they shall be perfected so as to get the data which are of economic value. The Richmond survey is the first of its kind, and necessarily in this respect experimental. It is intended to serve as a type survey, but even while the work was in progress, those engaged in the work realized that improvements could be made in the methods and in the schedules, and when the report issues from the Bureau of Labor Statistics, it is to be hoped that criticisms will be freely forthcoming from those interested to secure accurate data regarding the common industrial pursuits of wage earners.

JOSEPH A. HILL: I think that the movement initiated by the appointment of these committees on the statistical work of the federal government, if it is to have practical results, ought to lead to the institution of a federal statistical commission established by act of Congress, and having authority to investigate the statistical activities carried on by the different government bureaus and to make recommendations with a view to the better organization and coördination of the work and the improvement of the product.

The statistical work of the United States government has grown up in a more or less haphazard way. It is not improbable, therefore, that an undue amount of time and money is being expended on some statistical lines and not enough on others, and that some statistical inquiries might with advantage be curtailed and others expanded, or some dropped altogether and new ones initiated.

It is not merely a question of whether each inquiry considered by itself is worth while, but a question of what is best worth while. It is the relative value of the different lines of work which must be considered. It is the question of efficiency, or of using to the best advantage the limited amount which the country as represented by Congress is willing to expend on statistical work.

An investigation of this kind will take time; to be of any value it must be thorough, extending even to the detailed questions on the schedules, and must be conducted by competent men who should be compensated for their labors.

I think that the societies here represented ought not to rest content with merely passing resolutions and making recommendations. They ought ultimately and after due deliberation to draw up the bill for the institution of such a commission as that suggested, covering all the details of its organization, and then take steps to secure the enactment of the bill bringing to its support the organized efforts and influence of the entire membership of both societies.

N. I. STONE: I wish time would permit to go into the many points that I should like to cover with reference to our government statistics. A great deal of it is wrong fundamentally and many of its shortcomings are due to working with imperfect tools.

I heartily agree with what Professor Mitchell has said about the shortcomings of the statistical staff in the average government office. In the exact science of physics they have long learned the lesson that the accuracy of knowledge established by their research work depends upon the accuracy of the instruments employed. In the army they would not ordinarily place a private in the ranks in charge of a regiment merely because he was a bright or brave fellow. They have recognized the necessity of scientific training as a qualification for an officer. Even our politicians would not think of appointing a man who is not a trained lawyer to a position requiring the handling of legal matters. Certainly no one but a graduate of a recognized medical college would be permitted to hold a position of responsibility in the public health service. But statistics has not been recognized as yet either as a science or a profession, and anybody who can add up a column of figures can acquire the title of statistician and be appointed to direct most important statistical work if he is lucky enough to get into the good graces of the appointing powers.

In Germany no man would be allowed to hold the position of chief of a statistical bureau or even a subordinate position requiring expert statistical knowledge who is not a university graduate who has specialized in the science of economics and statistics. Until we get this principle officially recognized in this country, we shall be confronted with the condition referred to by Professor

Mitchell.

Under these conditions it is not surprising that we are still without a definite policy and set of principles to govern the biggest statistical work that the government is doing, our census. The

decennial schedules have been changed radically from time to time, corresponding to the altering views of the various directors succeeding one another at the whim of politics.

In connection with the forthcoming Census of Manufactures of 1915 the present Director has applied to chambers of commerce and various manufacturers' associations to make suggestions for the improvement of the schedules. In this connection as a member of the Committee on Statistics of the Chamber of Commerce of the United States, I was asked to undertake the task of analyzing the present schedules and suggesting such changes as would make the census statistics of manufactures of greater practical value. In connection with this work I addressed specific questions to leading manufacturers and officers of their organizations and found the greatest variety of views as to the proper function of census statistics prevailing among business men. At one extreme were those who saw no value in government statistics and believed that if the census can not be abolished altogether it ought to be confined to the fewest and simplest questions, while at the other end were some of the largest business concerns of the country and most representative business organizations which thought that the census ought to present most elaborate statistics as to every element of the cost of production in every industry it covers and even that the census ought to prescribe a uniform system of cost accounting for all the business concerns in the country. One of the most influential commercial bodies in the country thought it of the greatest importance for the census to present detailed classified wage statistics, which the census does not attempt to do at present.

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The census is not the only branch of government statistics, however, that presents room for improvement. Dr. Durand and I, before we left the government service, had been engaged for some time in a study of our statistics of foreign commerce, in response to a demand from commercial organizations that the government publish statistics of foreign commerce in greater detail. Before we proceeded very far in our study, we discovered that before thinking of the luxury of greater detail it would be necessary to insure greater accuracy in the statistics of our exports and imports on the scale on which published at present. One would imagine that statistics of imports, being based upon returns of customs officials who jealously guard the interests of the Treasury, would be exceptionally accurate. We found to our surprise that, while the aggregate value of imports was fairly accurate, that of

individual commodities and classes of commodities was in some cases as much as 25 per cent off. When we came to the statistics of exports we found the inaccuracy so great that no one can at present venture even an approximate estimate of the degree of inaccuracy. Certain it is that our exports are not only greatly and deliberately underestimated in a great many cases by individual exporters, but that there are instances, the frequency of which we had no means of ascertaining, of entire cargoes of exported merchandise not being reported in our export statistics, due to the imperfect machinery for the registration of exports, which is nearly a hundred years old and badly out of joint with present-day commercial conditions. I am glad to say that the Department of Commerce is now thoroughly alive to this situation and is consider-

ing means of overcoming this defect.

Time will not permit to go into other phases of government statistics and I wish to conclude by seconding most heartily the resolution proposed by Professor Willcox. I wish to say, however, that I do not expect any radical improvement in the situation until we have a committee paid either by the government or by private organizations, so as to enable a number of competent men to devote their undivided attention to this work. Dr. Meeker's experience is not an exceptional one. We are all busy people and have pressing work to do while earning a living. The task before us is of vast magnitude and will take years to accomplish, and, in my opinion, if the committees to be appointed by this Association and the American Statistical Association succeed in bringing about the appointment of a competent, salaried government commission or of a commission whose expenses are to be defrayed by the joint contributions of such organizations as our own and the various commercial, labor, and the other bodies which may have an interest in the work, they will have taken the longest step for accomplishing the great task that is before us.

THE RELATION OF EDUCATION TO INDUSTRIAL EFFICIENCY: THE STUDY OF THE GENERAL PRINCIPLES OF ADMINISTRATION

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The economic evolution of the United States has been, in one of its phases, a process of developing inequalities of economic power. There has been created a hierarchy, which includes the greater portion of those engaged in gainful pursuits, and which fastens them together in a meshwork of relations of superior and inferior. This signifies that the majority have come into a position where they must take orders—where the character of their lives, from hour to hour, is conditioned by the furniture of ideas in the minds of their superiors. Correspondingly, it signifies that other men have been delegated to carry responsibilities, and have attained to work which consists chiefly of discretionary functions. In short, the phenomenon of economic leadership has emerged, and has become an essential characteristic of our times.

For one thing, the men of wealth have greatly increased in numbers. At first, an Astor fortune grew out of domestic commerce, and a Girard estate was amassed from shipping and trading abroad. Then, with the advent of railroads and factories, an ever-increasing company of preëminent ones appeared. While now, we refer depreciatingly to the great army of the merely rich; and even the frontier, which has always been relied upon as the safety-valve of our national economy, has become a region of principalities of land, timber, and coal in individual hands. So we are interested in the order-giving power which wealth confers.

But the necessity to society of having its leaders made reliable does not alone rest upon the fact that some of these leaders have attained great wealth. Everywhere, in this day of corporations, the administrative relationships involved in our social process of production are becoming tighter and more exacting. If once, in war, the impromptu action of a loose body of sharp-shooters availed much, if

Once the embattled farmers stood, And fired the shot heard 'round the world,

the advice which our country is receiving, in this year of war, is to provide for her defense the power of masses of men trained to

strict military discipline. As in war, so in industry; initiative has become a matter of careful delegation. The rule of the superior executive has everywhere penetrated into new fields, and has increased in intimacy.

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The earliest attitude of the public mind toward the business administrator was the naïve one of viewing his prosperity simply as the reward of virtue and enterprise. The subordination of others which was implied in it was looked upon as something merely temporary and optional, and even valuable, as a sort of training school on the way to an independent ultimate career. The abundant opportunities of the continent were trusted to confidently. These opportunities gave to the phrase "economic freedom" a significance not at all sarcastic. Lincoln was able to say, in his Annual Message of 1862, in response to the southern argument that the life-long wage earner was a virtual slave:

There is not, of necessity, any such thing as the free hired laborer being fixed to that condition of life. Many independent men everywhere in these states, a few years ago in their lives, were hired laborers. The prudent, penniless beginner in the world labors for wages awhile, saves a surplus with which to buy land or tools for himself, then labors on his own account another while, and at length hires another new beginner to help him. This is the just, generous, and prosperous system which opens the way to all—gives hope to all, and consequent energy and progress and improvement of condition to all.

But it is on record that Lincoln saw with concern the effect which the war was having in building up large establishments under the control of the few.

It has gradually become plain that inequalities of economic power have come to stay. The majority must be subordinates for life. Supermen have appeared, not only as once, in statecraft and war, but now in industrial affairs as well. Therefore, as once the problem of controlling political power absorbed thinkers, so now the method of hedging about our economic potentates, or of awakening in them ideals which shall make them safe, as agencies of the general welfare, is attracting attention.

As a nation we have become solicitous about the matter of opportunity. On a recent trip to this country, Mr. H. G. Wells observed that,

The American community is discovering a secular extinction of opportunity, and the appearance of power against which individual enterprise and competition are helpless. . . . That steady trend to-

wards concentration under individualistic rules, until individual competition becomes disheartened and hopeless, is the essential form of the economic and social process in America.¹

New Demands upon Economics

It is as this situation has become established in reality, and appreciated by the public mind, that the universities of the country have been called upon to give special training preparatory for business life. It seems reasonable to suppose that there is a connection between the two things. It suggests itself that, as upward climbing has become more difficult for propertyless vouths. their parents have sought for them instruction in the nature of industrial processes so that, armed with knowledge, they might still rise to honor and a competency. But it seems equally probable that the public desires changes in industry, looking to the equalization of opportunity, and the more widespread enjoyment of the rational objects of life. At all events, it is clear that society is groping for the fit concept of what an industrial leader should be, and asks the universities to assist, and to train men who, when responsibilities are laid upon them, will make industry more efficient, just, and enjoyable.

Professional Courses

The most obvious response to this demand has been a vigorous evolution of special courses having to do with the applications of physical science; with economic morphology, or the relations of institutions to each other; and with the measurement, administration, and proprietorship of values through accounting and finance. Leaving at one side the question of the technical equipment which these courses provide for success in business, let us consider them for a moment, as instruments of social progress.

The American college student is familiar enough with general ethical principles, but he has doubts about their working out in detail. It is necessary, therefore, to descend into details, and to throw details into a rational order, as a science, to find out. This process lets in the light. "How many an action," says Gomperz, in his *Greek Thinkers*, "injurious to the common welfare, would have been left unperformed, had not a veil of misty thought concealed from the doer of it the fact that it belonged to a class of actions admitted by himself to be reprehensible." This is particu-

¹The Future in America: A Search after Realities. N. Y., 1906, pp. 91-92. ¹Gomperz, T., Greek Thinkers: A History of Ancient Philosophy, London, 1901-12. Vol. II, p. 77.

larly applicable to those departments of business activity which have not been cleared, by scientific scrutiny, of popular fallacies, and of the harsh philistinism which hides behind the phrase "Business is business." The progress of economic and sociological studies, and the devising of such instruments of precision as accounting, is giving to everyone a more definite idea of the nature of social action and reaction in the economic field. It is supplanting the vague, pious generalizations by which men of generous impulse once expressed their hopes, and is putting in their place efficiency reports and sociological surveys. It is proving why certain harsh methods of foremanizing and deceitful methods of financing do not pay, and doing it with a cool and deadly certainty, like the soldierly advance of a piece of mathematical reasoning toward Q. E. D. Analysis is probing out the full significance of the plan of running a business in such a way as to throw upon the community the cost of skinned natural resources, or of an offended investing public. And so this work is making for righteousness.3 But it has been principally concerned with the physical, commercial, and financial aspects of the economic process. And it has remained largely on the plane of technique; and necessarily so, since it has been in the preliminary stage of investigation.

Culture Courses

This semi-professional education is, in undergraduate programs, accompanied with avowedly cultural courses in history, literature, philosophy, and the like. In graduate programs, it is preceded by them. Do these two elements of education—the professional and the cultural—fuse themselves into an interdependent whole in the student's mind? Does the student come into the special courses, with impersonal interest, to investigate some ideal of economic efficiency or justice there set forth, and to conceive

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'It has been concerned with those fruitful "middle propositions" of which Plato speaks in his Theaetetus.

Bacon said, "An honest man can do no good upon those that are wicked to reclaim them, without the help of the knowledge of evil. For men of corrupted minds presuppose that honesty groweth out of simplicity of manners, and believing of preachers, schoolmasters, and men's exterior language; so as except' you can make them perceive that you know the utmost reaches of their own corrupt opinions, they despise all morality. 'The fool will not listen to the words of the wise, unless you first tell him what is in his own heart'." Advancement of Learning, Book II.

it with a certain "illumination and largeness of mind," as Henry Newman once said, "which belongs not to the study, but to his liberal education?" Or does he come inquiring how some ideal of conduct, born of his cultural studies, may be realized in terms of modern professional life? It is greatly to be feared that the connection between these two departments of study is not as close as it should be. The cultural concepts seem, often, to remain in a world apart, after the fashion of romanticism—in a world of fancy, or of the past—and not to get carried over as influences into the domain of the personal ambitions, and so to become effective upon conduct. In so far as this is the case, it is a defect calling for the construction of a bridging subject, to elucidate the significance of past cultural enthusiasms for present men of action.

Courses in Distribution

But there remain the regular courses in economics to take into account. These are the transitional subjects which now serve to connect the general and special courses. Do they bind the student's culture and his technique firmly together, and give him a consistent point of view, and the one likely to be the most valuable for this generation of leaders of industry? To the economist, the great affair in which society is involved seems to be, as for the labor leader, pretty exclusively a matter of the distribution of wealth, and of its control in the interest of a leveling process.

To discuss distribution comes very naturally to economists, for economics has usually dismissed the productive process summarily, with a few much-worn remarks on the division of labor, the rise of capital out of saving, and large-scale production, leaving the impression that the significance of the process lies practically in one thing only, namely, in the want-satisfying power of the product. It has then turned with relish to the detailed examination of the mass movements, and the general balancing processes, which determine the division of the product into rent, wages, interest, and profits. And so our science seems to rush eagerly on to reach the question, "What is there in it for me?" which it asks, chiefly, of a complex of impersonal forces, over which individual will has little control.

When a person asks this question, "What is there in it for me?" what inference do we draw? Do we not assume that the process, with its possible perfection, is overlooked, and that the interest has

The Idea of a University, Discourse VII, 6.

run on to the end or reward? What is the standing of this attitude in the arts and professions? Overemphasis of results means contempt for the process. A neglected process is a miserable one. A miserable process increases desire for results, until it becomes an anxiety or a greed, measuring in its intensity the extent to which one has been cheated of the fullness of life, during the process.

Many years ago, John Ruskin, one of the most sensitive of minds to the disharmonies of the social order, said, "Men have no pleasure in the work by which they make their bread, and therefore look to wealth as the only means of pleasure."

Recently, when Henry James returned to this country, with mind made receptive to American impressions by years of absence, he gave us what he considered to be the fundamental formula of American life. He said,

These reflections connect themselves with the preliminary American postulate, or basis for any successful accommodation of life. This basis is that of active pecuniary gain, and of active pecuniary gain only—that of one's making the conditions so triumphantly pay that the prices, the manners, the other inconveniences, take their place as a friction it is comparatively easy to salve, wounds directly treatable with the wash of gold. . . . To make so much money that you won't, that you don't "mind," don't mind anything—that is absolutely, I think, the main American formula.

Without subscribing to this, we may yet admit that there is a grain of truth in it.

Even the efficiency engineer, striving for a more scientific temper in industry, and realizing the necessity of friendly relations between management and men, rebukes the prevailing overemphasis of the distributive process. Thus, Mr. Taylor says,

The great revolution that takes place in the mental attitude of the two parties under scientific management is that both sides take their eyes off the division of the surplus as the all-important matter, and together turn their attention towards increasing the size of the surplus.⁸

Without in any way disparaging the importance of technical efficiency in production, or justice and generosity in distribution,

Stones of Venice, Ch. VI, "The Nature of Gothic."

⁷ The American Scene, London, 1907, p. 236.

⁸ Mr. F. W. Taylor, in Hearings before the Sp. Comm. of the House of Representatives, on the Taylor and other Systems of Shop Management, Washington, 1912, Vol. III, p. 1388.

is not another point of view needed? Is there not an element of industrial leadership which has been neglected? It seems to me that, by reason of recent developments in psychology, hygiene, ethics, et cetera, we have all become sensible that there is required a general readjustment of the methods of handling men in industry, to harmonize with the requirements of human nature.

What is Industry?

What is industry? It is more than a division of labor, or a use of capital, or a production of goods, or a distribution of profits. It is an art of life: its inevitable product some sort of character. It is a daily relation of human beings, who are richly endowed with sensibilities, and who possess a pathetic capacity for indifference, shortsightedness, and brutality; and for enthusiasm, loyalty, and sacrifice. An industrial establishment should be a company of brothers banded together for mutual aid and the public good, and sustaining each other with sympathy in a process of self-expression. The most significant thing about industry is that it is a process of dealing with human nature. For men of talent it is chiefly an opportunity for leadership.

What the military leader was in the days of constant war, and the statesman was in the period of the formation of great states, the industrial executive is in this commercial age. He is the leading exponent of organized action in the world. Carlyle, familiar with the history of captains of war, called our industrial leaders Captains of Industry, and said of them, "The leaders of industry, if industry is ever to be led, are virtually the captains of the world; if there be no nobleness in them, there will never be an aristocracy more."

So a new power has appeared. The community has turned to the universities to assist in making sure that the administrators of it shall be enlightened, but more than technically enlightened, shall be humanized. What then can the life, itself, in industry, be made through the best leadership? What sort of a Shepherd of his People, to use Homer's phrase for Agamemnon, do we want the future business administrator to be?

Necessity of the Study of Leadership

Is there anything more natural and reasonable, as an answer to this question, than the suggestion that we endeavor to discover

Past and Present, Bk. IV, Ch. IV.

what fine leadership has signified in the past; that we bring the wisdom of former times to bear upon the problems of the present? But, it may be responded, economic leadership of the present sort is recent. It has little history; and what there is has been half forgotten, half concealed. This may be freely conceded. It is to be hoped that some day the history of the first generation of American captains of industry will be written. Conceived with imagination, it will prove as interesting as the history of the despots of the Italian Renaissance. But, meantime, we need not wait for it. There is a long and fascinating history of administration, pertaining to the work of great military leaders, and statesmen, diplomats, reformers, the framers of ecclesiastical policy, and other prominent ones who have made for themselves a lasting mark in some field of the domain of organized action. In these lines of human affairs we can find the publicity of details essential to the judgment of actions. Each line will serve to bring certain things most clearly to view: each will stress certain virtues, or unmask certain faults. Each will bring us into stimulating contact with a separate group of forceful personalities.

But it may again be objected that these are different fields of leadership, and that the results of experience cannot be carried over from one to the other. It is true that there are differences in climate, and language, and country, and period. In war the use of artillery involves a different combination of the laws of physics and chemistry from that of the machine in industry. This would be important if we had in view courses in applied physical science. Likewise, it may be urged that political action is not restrained by the cost of production, in the sense that normal industry is; and that its results cannot be promptly evaluated or liquidated, to facilitate a turn-over. This would be pertinent if we had in view courses in the administration of values; such as accounting, appraising, financing, and investing. But these objections do not hold when we have in view the study of business administration, as the art of handling men. Here the subjectmatter is human nature. The administrator in whatever sphere he works has to judge men, and understand how judiciously imposed responsibilities develop them, and how dangerous failure is to them. He has to safeguard against the same human defects of ill-will, selfishness, and despondency; and he places reliance on the same factors of ambition, intelligence, and stability of character.

Xenophon reports for us a conversation between Socrates and

a disappointed candidate for military office, in which Socrates pointed out that the qualities essential to good generalship are employed by the merchant who is able to collect a stock of goods, by the leader of a chorus who finds competent teachers, and by the manager of a household who successfully governs the movements of a body of workmen and slaves. At the conclusion of the discussion Socrates pointed out that there was in all these matters a central art of managing men. He said:

The conduct of private affairs differs from that of public concerns only in magnitude; in other respects they are similar, but what is most to be observed is that neither of them is managed without men, and that private matters are not managed by one species of men, and public matters by another; for those who conduct public business make use of men not at all differing in nature from those whom the managers of private affairs employ; and those who know how to employ them conduct either public or private affairs judiciously, while those who do not know will err in the management of both.¹⁰

Administration as a Theme in Culture Courses

It may still be objected that it is unnecessary to make a special effort to analyze the relationships involved in joint action, for the benefit of the industrial leader, since it is the object of courses in literature and history to deal with the most inspiring manifestations of human faculty, by virtue of which we call them humanities. I should be very happy to think that the stirring story of leadership was not being hidden from the student's attention by philology and archaeology and literary criticism and the treatment of history as a commentary on theories of sovereignty and other intervening viewpoints. But I fear that this story is not being made a transforming power in the minds of present college men.

But even if teachers of business administration have the good fortune to work in harmony with the humanities, they are, nevertheless, in a position to perform a particular function. They can give a special point to the history of joint action. They can deduce rules of administration, and present them as matters applicable to the present-day business executive. Furthermore, they have the opportunity to deduce the best methods and reveal the most inspiring aims, and yet remain entirely free from suspicion of cant or professional bias. It will be recognized that they are not obliged to point a moral, as teachers of ethics, nor magnify an historical character, as a specialist on some historical period

[&]quot;Memorabilia, (J. S. Watson), Bk. III, Ch. IV.

riding his hobby, but that they bring forward these things because they make for efficiency.

Arrangement of Materials

The material of courses devoted to the human nature of joint action may be grouped, either with the object of bringing out most prominently the personality of individual leaders, or with the main purpose of elucidating the principles, one by one. Best of all, perhaps, is some compromise plan of taking up one principle at a time and elucidating it by a single, carefully-studied, and fully-presented episode from the life of a great administrator.

Study of Individual Leaders

The first arrangement, which aims to bring personality into view, has the advantage of interest and an atmosphere of reality. Individual example, which transcends every other influence upon conduct, is brought into play. To raise the ghost of past leaders, throws the present administrator into historical perspective as a spiritual heir, upon whom rests a mandate not to disgrace the succession. It is as if the student who is looking forward to a career as an executive were taken into a gallery containing the portraits of his ancestors and, hearing tales of their heroism, were fired to dedicate himself to a like chivalry.

Reviewing the lives of administrators, we may perceive, in such a man as Napoleon, an astonishing mastery of detail, coupled with weakness in demanding too rigid an obedience from his marshals, and in tolerating no advisors of independent mind at his court. Unshakeable decision may be seen in Lincoln, while in the pages of Guicciardini we may read of the fatal irresolution of Clement the Seventh. Of Lincoln it is said, "He was never known to offend. On the other hand, he was never known to give in on an essential point." Could we find a better starting point for the study of diplomacy—there, and in the candor of Lincoln's secretary, John Hay?

For the effects of concentration upon principal aims we may review the life of Grant, which seems to have been framed on Bacon's advice, "Go through with that which is in hand, and interlace not business, but of necessity" while Lord Brougham¹³

¹¹ Rose Strunsky, Abraham Lincoln, N. Y., 1914, p. 295.

[&]quot; "Of Great Place."

¹⁵ Lord Henry Brougham, 1778-1868.

will provide the picture of scattered energies. On compromise and the middle course Sir Henry Savile can teach us; while Chatham will serve as an illustration of a statesman ready for extreme measures. In Robert E. Lee we may observe the function of religious faith in easing the mind of anxiety, after duty is performed. Efficiency in defeat may be illustrated by Wolsey's extraordinary fertility of invention, Richelieu's power of making the most of all circumstances, Mazarin's cool objective temper, and Beaconsfield's courage.

If we wish to study the talents which reveal themselves in speed of execution, there is the story of Sir Henry Vane's construction of the English navy under Cromwell, while the philosophy of judicious delays extends from Fabian to Joffrey. On the choice of men Cromwell gives us the grand test of moral force, saying, "I raised such men as had the fear of God before them, and made some conscience of what they did, and from that day forward, I must say to you, they were never beaten. . . And truly this is matter of praise to God, and it hath some instruction in it, to own men who are religious and godly."

If we would learn how proper limits may be set to effort, there is the history of Frederick the Great, who never overreached himself, while, contrariwise, in the policy of Laud and Strafford, denominated by the word "thorough," and in the answering "root and branch" of the Parliamentary leaders, we may observe the stern virtue of avoiding half measures overstepping practical limits.

In Wellington's career we may trace, working together with immense capacity and devotion, the results of aloofness, and indiscriminate praise and blame, and finally, in his political life, intolerance; while Julius Caesar, that predecessor whom he resembled in arms, challenges our admiration for his art of making common cause with his men, his astonishing power of searching out and rewarding those who deserved praise, and his leniency where the motives of his opponents were honorable.

The Study of Principles

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The advantage of arranging material for the student, with the chief object of bringing out the principles of joint action, is that with such a plan the way is opened for the introduction of precepts from the wisdom literature, gems of advice from the maxim writers, the discussions of strategy, the rules of investigation

which constitute the scientific method, together with facts from psychology, and postulates from ethics. By this arrangement of the subject, greater stress is put upon the reasoning involved. The student becomes accustomed to trace analogies between activities of diverse kinds, and to formulate the general or pure principles common to those activities. While the results are not so vivid as in the other arrangement, they tend to be left in the student's mind in a more clear-cut and compact form, apt for

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ready use, somewhat as a creed or code of action.

Of the many principles of administration, which offer themselves for inculcation, but a word or two can be said. What may be called the mechanics of organization will involve the definition and distribution of authority and responsibility, including the necessary distinctions between planning and execution, and between general matters and details. It will aim at the adjustment of capacity to function, and the establishment of control through standards, sequences, and schedules, with individualized orders and records, tasks and rewards. These various steps combine to bring into existence a group of agencies, coördinated to mutual functioning, and taking the form of a system, including every individual and operation, and providing an avenue for the downward passage of ideas associated with initiative and the upward movement of facts connected with response.

When attention is turned to questions of policy, the student will find his energies awakened by the fascinating variety and the sobering depth of significance of the subject. What are the various types of discipline which, in all degrees, from mere instinctive obedience up to the most intelligent loyalty, have ever been relied upon to insure response to constituted authority? In what proportions are confidence in leadership and confidence in the coöperation of comrades blended in discipline? In coördinating various agencies, what is the applicability of the rule that only factors of analogous degrees of excellence should be united? "No man seweth a piece of new cloth on an old garment." And what are the limits of the counsel that the manner of a part must con-

form to the manner essential for the whole?

What, likewise, are the limits of the policy of preliminary preparation, of which the German army has again given the world a striking illustration? It is, undoubtedly, a prime means of storing up a portion of the current energy of an organization for concentrated delivery at a future time. But what of the saying of Pitm

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ticus, "Only power reveals the man"; an idea more explicitly expounded by Louis XIV to his son, when he said, "The higher the position, the more it has objects that cannot be seen or known until we occupy it." Again, there is a connection between preliminary preparation, with its tendency toward a fixed objective, and the disregard of small incidental successes. The value of the latter Sir Walter Raleigh, having in mind the uncertainties of fortune, emphasized. In yet another direction preliminary preparation bears upon the policy of seizing the initiative, for it has been well said that one can only plan specifically for what he himself initiates.

When we have as great a respect for human nature as for the nature of machines, and the value of products, we shall want the administrator to understand the character of attention and the significance of pleasure in work. If the time ever comes when what is now accepted as established in psychology, concerning the conditions under which human talents find efficient expression, becomes accepted in industry there will be a great revolution. The nature of many tasks will be changed, and the method of presenting tasks will be changed. The waste of monotony and the debilitating effect of divided attention is well understood in education. So also is the significance upon conduct of a deep-seated sense of injustice, understood in penology.

We call this the age of competition, but do we realize what can be achieved through the instinct to excel? The Athenians had competitions between potters and painters and sculptors, and athletes and dancers and choruses, and rhetoricians and dramatists; ¹⁴ and by this means they gave themselves an amazing variety of interests and sources of pleasure.

The fascination of junctures of socialized achievement¹⁵ for the human mind, and the energy developed by the anticipation and recollection of them, is annually illustrated on the college football field. There is no doubt but that two of the most suggestive forms of human activity which industrial leaders can now study

See W. S. Ferguson, Greek Imperialism, pp. 58-60.

[&]quot;"The highest efficiency, whether in industries, or in the pursuit of knowledge and truth, must always be the result, not of utilitarian motives or routine processes, but of gregarious idealism and human passions."—Pres.-Emeritus Chas. W. Eliot, The Independent, Nov. 13, 1914.

[&]quot;"Work which in itself causes delight is executed as perfectly as possible. If genius is synonymous with love, then the mode of action of the man of

are art and sport. 16 Both exceed industry in evoking energy, and yet re-creating it; both are rich in pleasure, in which industry is poor.

Contrast industry and football. In industry, for the subordinate, at least, we provide no audience to make his achievement a social thing; we suppress the score until the end of the month or year and, to follow the analogy a step farther, we arrange, with perverse magic, that at each play the ball shall pass out of sight into the next shop or office, so that each player sees but a fragment of the game.

The root of power is the instinct to create some complete thing. The act of creating is the effort to give expression to our pleasure, and lasting form to the source of it. If anything so rich in enthralling climaxes of socialized action as sport agrees with human nature, what can be said of the psychology of that kind of industrial administration which substitutes the idea of serving for that of creating, and which takes away pleasure and leaves in its place only pay.

Every man has a right to a normal incentive. A normal incentive is composed not only of fair pay and promotion, but a conviction of the importance of the thing done and, meanwhile, the pleasure of achieving some superior method or art connected with the doing of the work, and which gives to the process of self-expression involved exultation, or the quality of a triumph. There

genius will consist in doing what he does with all his soul, with a complete devotion to the work itself, be it what it may. The narrow-minded man is astonished at what is apparently child's play to the genius, and does not see that it is in point of fact somewhat of the nature of play, since the man of genius takes pleasure in the work for itself and the actual, practical purpose falls more into the background. Anything done merely because it gives pleasure, an act performed solely for its own sake, we call play; so that, however strange it may sound, the more a man's whole heart is in what he does and the more objective, disinterested, inspired by genius a man is in his action, the more will it acquire the nature of play, or free activity, the aim or idea of which is centered in itself.

"The more a man, on the other hand, looks to what he hopes to attain by his work, the pecuniary profit it may yield, the satisfaction of his vanity, and similar ends, the less importance will he attach to the work itself, the greater will be the dislike combined with the performance of it, and the more imperfectly will it be executed." Herman Türck, The Man of Genius, Schwerin i, M., 1914, Ch. S, "Conduct in Practical Life." pp. 53-54.

To increase the element of pleasure in industry will be to bring industry more nearly into Aristotle's category of things which are liberal. See, Rhetoric, I. 5.

is, then, a calculus of moral sentiments intimately interlaced with all economic study. President-Emeritus Eliot has said,

The real motive power in every human life, and in all national life, is sentiment; and the highest efficiency cannot be produced in any human being unless his whole character and his whole activity be dominated by some sentiment or passion.¹⁷

Likewise William James says,

There is something which can make you efficient in spite of your untrustworthy memory and your wandering mind, and that something is passion for your work.¹⁸

In accord with this Mr. Maude, an English military expert, says,

The man who would fit himself for the highest commands in war, or even for the criticism of those who exercise them, must never for one moment forget that the momentary spirit of the mass he directs is the fundamental condition of the success of every movement. Just as there is no movement so simple that its success may not be jeopardized by ill-will and despondency in execution, there is hardly any limit to what willing men can achieve. 19

The conclusions here quoted are very similar to those at which the leaders of scientific management have arrived.

Time fails to speak of understudies, and of the arrangement of men in promotion chains, of cabinets and committees, of the means of giving to policy proper flexibility, of the function of compromise, of the many fine rules of diplomacy, and of the democratic theory that those pleasures are greatest which are shared.

Literature.

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The literature of administration, considering the sense in which administration is here used, is extensive. First of all, there is biography, infinite in amount, from ancient Plutarch²⁰ to modern Bradford,²¹ writing of *Lee*, the American, and varying in quality from the stern stuff which came from under the heavy hand of Carlyle,²² to the light workmanship of La Bruyère²³ and Sainte-

[&]quot;Eliot, C., Education for Efficiency and the New Definition of the Cultured Man. N. Y., 1909, p. 27.

[&]quot;James, Wm., Habit, N. Y., 1914.

[&]quot;Maude, F. N., Article "Strategy," Encyc. Brit., 11th Ed.

[&]quot;Lives, Boston, 1902; Political Precepts, Boston, 1906.

[&]quot; Bradford, G., Lee, the American, Boston, 1912.

ⁿ Especially, "History of Frederick II of Prussia"; and "On Heroes." See Works, Centenary Edition. 30 Vols., N. Y., 1896-1901.

²⁸ La Bruyère, Jean de, The Morals and Manners of the XVII Century; Being the Characters of La Bruyère. Trans. by Helen Stott, London, 1890.

Beuve.²⁴ For the study of benevolent tyrants (or the benevolent study of tyrants) there are Mommsen's²⁵ chapters on Sulla and Julius Caesar. For the rôle of intuition as an aid to leadership, there is Monypenny's *Disraeli*.²⁶ For tenacity of purpose there is Thayer's *Cavour*.²⁷ It is well to seek out the great analyzers of human motives, such as Samuel Johnson, Bacon, Bulwer, Goethe, and Emerson.

The philosophy of joint action may be found in the wisdom literature, extending from *Proverbs* to Bacon's *Advancement of Learning*. There is much of it in such maxim writers as La Rochefoucauld²⁸ and Chamfort,²⁹ as well as in the aphoristic paragraphs of Goethe³⁰ and Schopenhauer.³¹ Besides these, there are pertinent treatises by lesser men not to be overlooked, such as Sir Walter Raleigh's *Cabinet Council*,³² John Foster's *Decision of Character*,³³ Lecky's *Map of Life*,³⁴ and Sir Arthur Help's *Essays*.³⁵

The early literature of political science, before modern constitutions so greatly hedged the executive about, is suggestive. And especially thought-provoking is the literature of the Renaissance, when the principles of politics were in such a formative and unreconciled state as the principles of business administration are now. And here there is particularly to mention the writings of Machiavelli. It is well to accompany the study of the products of this

²⁴ Sainte-Beuve, C. A., Portraits of the XVII Century. Trans. by K. P. Wormeley, 2 Vols., N. Y., 1904. Portraits of the XVIII Century. Trans. by K. P. Wormeley and G. B. Ives, 2 Vols., N. Y., 1905.

²⁵ Mommsen, T., History of Rome. Trans. by W. P. Dickson, 5 Vols., N. Y., 1903. "On Caesar." Bk. V, Ch. XI. "On Sulla." Bk. IV, Ch. X.

Monypenny, W. F., The Life of Benjamin Disraeli, Earl of Beaconsfield. London, 3 Vols., 1910-14 (Vol. 3 by G. E. Buckle).

27 Thayer, W. R., The Life and Times of Cavour. 2 Vols., Boston, 1911.

²⁸ La Rochefoucauld, F. Duc de, Reflections or Sentences and Moral Maxims, N. Y., 1900.

28 Chamfort, S. R. N., Maximes et Pensées Morales, Paris, 1892.

³⁰ Goethe, J. W., The Maxims and Reflections of Goethe. Trans. by T. B. Saunders, N. Y., 1893.

³¹ Schopenhauer, A., The Wisdom of Life, Trans. by T. B., Saunders, London, 1902. Counsels and Maxims, Trans. by T. B. Saunders, N. Y., 1899.

22 Raleigh, Sir W., The Cabinet Council (in Works), Vol. 8, Oxford, 1829.

52 Foster, John, On Decision of Character, N. Y., 1875.

M Lecky, E. W., Map of Life: Conduct and Character, N. Y., 1899.

55 Helps, Sir A., Essays Written in the Intervals of Business, London, 1890.

Machiavelli, N., The Prince, Trans. by N. H. Thomson, Oxford, 1897.

Discourses on the First Decade of Titus Livius, Trans. by N. H. Thomson,
London, 1883.

penetrating mind with the explanations of Morley,37 Villari,38 and Lord Acton.39

Military science deserves careful attention, for it is, at present, the most highly developed branch of administration, with the possible exception of political science. It differs from the latter in that little sacrifice of efficiency has been tolerated for the sake of democratic distribution of power. The emphasis which this literature places on the rugged virtues imparts to it something of the strength of soul of the classics. The great work in this field is that of General Karl von Clausewitz, the Father of German Strategy. It bears the simple title On War.⁴⁰ The writings of the officers of the general staffs⁴¹ of Germany, England, and France constitute a reliable body of professional treatises, the general tone of which is surprisingly broad and philosophical.

To offset the influence of studies in strategy, the student may turn to the literature of art, especially of that portion of it which considers art as a phase of self-expression, and as a source of pleasure in work. Here two names suggest themselves to us at once: John Ruskin⁴² and William Morris.⁴³

It is, of course, unnecessary to make particular reference to the literature of personal efficiency, psychology, and scientific management.

Conclusion.

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The project, then, which I would urge upon teachers of economics and business administration, in our colleges and universities, is to regard the business leader not merely as a ruler of matter and force, or as a calculator of value relations, but as a leader of his

Morley, J., Machiavelli, London, 1897.

ⁿ Villari, P., Life and Times of Niccolo Machiavelli, Trans. by Linda Villari, N. Y., 1898.

[&]quot;Acton, Lord (J. E. E. Dalberg), Introduction to L. A. Burd's Edition of Il Principe, Oxford, 1891. Mr. Burd's Introduction may also be read with profit, as well as his chapter (VI), "Florence II, Machiavelli," in Vol. I, of The Cambridge Modern History, Cambridge (Eng.), 1902.

⁶ von Clausewitz, Gen. Karl, On War. Trans. by Col. J. J. Graham, 3 Vols., London. 1908.

⁶ See the works of F. N. Maude, S. F. R. Henderson, and S. Wilkinson. Translations may be had of certain works of Freiherr C. von der Goltz, Lieut.-Gen. R. von Caemmerer, Gen. H. K. C. von Schellendorff, and of Col. Vachee.

[&]quot;Ruskin, J., Stones of Venice, N. Y., 1897, especially Ch. VI, "On the Nature of Gothic,"

⁶ Morris, Wm., Hopes and Fears for Art, N. Y., 1901. Signs of Change, N. Y., 1903.

fellowmen. And this, not alone with reference to the leisure and wealth won from industry, but in the life of industry itself. The evolution of technique is constantly putting new instrumentalities into the hands of executives; a point notable, for example, in connection with scientific management. New power always raises questions of the proper restraints of method, and the ultimate ends. By making a broad study of methods and ends, as they have shaped themselves in the hands of the world's leaders in various lines of joint effort, students will be encouraged to range more boldly up and down the world of thought, in search of their intellectual food. To industry will be given a new significance of history and tradition, while the relationships which knit it in with the other portions of society's organized effort will be multiplied.

EDUCATION AND INDUSTRIAL EFFICIENCY—DISCUSSION

H. L. Gantt: Professor Jones's paper is of extreme importance, because (1) he has demonstrated the fact that such general principles exist; (2) he has emphasized the great importance of industrial leadership, a subject that has never publicly received the attention which it deserves; (3) he has urged teachers of economics and business administration to regard the industrial manager not only as a ruler of matter and force, but as a leader of men. I shall discuss these three points in order:

1. General Principles.—He has made it perfectly clear that as all "administration" means directing the activities of men, the particular kind of activity is incidental, and subject to general laws. This being true, attention must be fixed primarily not on results

but on methods which produce results.

To be sure, many of our most wealthy and hence powerful men of today have to a large extent ignored methods, demanding only results. Their success in accumulating wealth has been due in many cases not to proper methods, but has been achieved in spite of improper ones. In most cases they have not been so much producers of wealth as harvesters either of the wealth produced by others or of that wealth which but a few short years ago was, in this country, to be had for the taking.

This condition, however, is rapidly passing, for the amount of unappropriated wealth is fast decreasing, and the tendency of modern legislation is to secure to the individual the fruits of his own labor. Under such conditions it is to be expected that the direction of our affairs will gradually pass into the hands of those who most carefully conform to the correct principles of adminis-

tration.

It thus becomes apparent that in the long run the material products of our industries are not so important as the human product, for from this product will arise not only our most valuable citizens, but many of our future leaders, who in turn will make industries.

2. Leadership.—The importance of leadership has been given all too little attention in the past, apparently for the reason that accidental conditions have in many cases been quite as effective in securing wealth as has leadership. Such opportunities, however, are no longer numerous, especially in our industries, and a study of industrial leadership is forcing itself upon us.

Professor Jones has made elaborate studies of leadership in war, about which we have more exact information than any other type of leadership, and finds that leadership in both war and industry are not only based on the same principles, but are equally important. Just as war is the great training school for those who are to make war, so industry is the great training school for those who are to create industry. Leaders in war and in industry hold the same relative importance in their respective spheres. If this is the case it is well for us to see what the great warrior of modern times has to say about the importance of leadership in war, and thus arrive at some appreciation of the importance of leadership in industry. Napoleon said:

In war men are nothing; it is the man who is everything. The general is the head, the whole of an army. It was not the Roman army that conquered Gaul, but Caesar; it was not the Carthaginian army that made Rome tremble in her gates, but Hannibal; it was not the Macedonian army that reached the Indus, but Alexander; it was not the French army that carried the war to the Wester and the Inn, but Turenne; it was not the Prussian army which, for seven years, defended Prussia against the three greatest powers of Europe, but Frederick the Great.

The historian in making this quotation stated that Napoleon reiterated a truth confirmed by the experience of successive ages, that a wise direction is of more avail than overwhelming numbers, sound strategy than the most perfect armament. Similarly in industry, a wise policy is of more avail than a large plant, good management than perfect equipment.

The historian goes on to say:

Even a professional army of long standing and old traditions is what its commander makes it; its character sooner or later becomes the reflex of his own; from him the officers take their tone; his energy or his inactivity, his firmness or vacillation, are rapidly communicated even in the lower ranks; and so far-reaching is the influence of the leader that those who record his campaign concern themselves but little, as a rule, with the men who followed him. The history of famous armies is the history of great generals, for no army has ever achieved great things unless it has been well commanded. If the general be second-rate the army also will be second-rate.

These facts in military history have their exact counterpart in industrialism, and the real problem of today is how to select and train, or rather how to train and select, our industrial leaders.

Professor Jones states the indisputable fact that the possession of wealth and, hence, power does not necessarily fit a man for

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leadership. There is a general feeling, however, that because our industries have in the past been directed in an autocratic manner. autocracy will continue to be the rule, and that there is apparently no escape from it. This feeling seems to be quite widespread and to he substantiated by the marvelous industrial development of Germany under autocratic rule. While it is possible that autocracy in industry is the final stage, I do not think the case is by any means proven. Has not the development of industrial organization been in a large measure parallel to the development of political organization? In both we had individualism, then paternalism, and then tribalism, or something approximating it; next we had autocracy. In our political organization we have passed one step beyond-we, in this country, believe in democracy -and the great struggle now going on in Europe is largely a question as to whether democracy or autocracy shall be the final phase in the old world.

The marvelous efficiency of Germany as an industrial and military nation has claimed the attention of the whole world; but we must realize that Germany is the only nation which has made any serious attempt at national organization of industry. When, therefore, we compare the industrial organization of Germany with the industrial conditions of any other country, we are not comparing one organization with another, but a highly perfected organization with lack of organization.

In the summer of 1913 three hundred members of the American Society of Mechanical Engineers visited Germany at the invitation of the Verein Deutsche Ingenieure. We spent three weeks touring the country and visited most of their great cities, where we were entertained with the greatest possible hospitality and had thrown open to us many of their most successful industrial plants.

We were much impressed with what we saw, and the universal prevalence of system and order elicited our unbounded admiration. When, however, we came to the consideration of the industrial plants as units, we were in almost entire accord that, with the exception of a few industries, plant for plant, America had nothing to fear from Germany. This leads us, therefore, to ask if autocracy in industry is not just as much a phase in industrial development as we in this country consider it to be in political development.

As a matter of fact, during the past ten years it has been my effort to introduce methods of equal opportunity into industry and

to select leaders in the most democratic manner possible. I am pleased to say that the efficiency of the organization thus produced has seemed to be almost in direct proportion to the success in introducing democratic methods of selecting leaders.

Too little work has been done in this line, and there are too few results available to make any very strong statements, but the success so far attained is such as to make us feel that we are on the right track, and that the nation which first does away with autocracy and special privilege will take the lead in industrialism. The scientific method thrives best under democratic conditions, and our chance of getting proper industrial leaders is far greater when we have a whole people to choose from than if they are to be selected from any class.

Professor Jones's emphasis on the fact that in all problems of administration the most important element is the human element, compels acceptance of the democratic idea, for no manager can today attain the highest ideals unless he is thoroughly familiar with all the elements with which he has to deal. It is general experience that unless men are studied from a democratic standpoint the student fails to get a proper appreciation of the human element.

3. Teaching Business Methods.—Professors Jones's insistence that teachers of economics and business administration should regard the business leader as not only a ruler of matter and force, but as also a leader of men, is exactly right.

The attempt to show classes results which have been obtained is right, if these results illustrate a general principle; but if the methods used have no underlying principle to connect them, they may result in convincing the student that a system of management is simply a series of isolated "stunts."

This kind of teaching in college and out is in a measure responsible for the great army of men who call themselves "efficiency engineers," many of whom are not engineers at all, but simply "stunt" peddlers. Nevertheless they are doing some good, for the man who today buys a few valuable stunts at least learns that he does not possess all available knowledge, and may be led some day to apply the scientific method to his business. Nevertheless colleges should not cater to such a class, which is already large enough, but should prepare students to grapple with the basic industrial problem, namely, that of becoming so grounded in the principles of administration, which they can only do in industry

itself, that they may become the real industrial leaders of the future.

In conclusion, I may add there is another similarity between war and industry in the manner in which those responsible for success are most often hampered. Just as, in war, nobody denies that the military arm must be subordinate to the aims of diplomacy, so, in industry, the factory manager must serve the needs of the financier; but as, in war, it is a great mistake for the diplomat to undertake the control of the armies in the field, so, in industry, it often produces most detrimental results when the financier undertakes to usurp the duties of the manager. It is my belief that much of our inefficiency and many of our most serious industrial troubles are due to this very thing.

It is a well known fact that men who have power feel too frequently that they should themselves exercise it, not recognizing their lack of knowledge. We should, however, not be too critical of such people, for it took as great a man as Abraham Lincoln nearly three years to realize that a trained soldier could handle the armies of the United States more effectively than he could.

Isaac A. Loos: When I first saw Professor Jones's paper, entitled "The Study of the General Principles of Administration," I was gratified, because its title seemed to me promise of a recognition of administration as a branch of economic science in German fashion. Die Verwaltungslehre is as much a branch of economic science as is Finanzwissenschaft.

But on reading through the paper I have not found any attempt to relate administration systematically, or even consciously, to economics. I believe, however, that we must regard administration as a branch of economic science just as we usually regard finance as a branch of economics. We should, morever, make the twofold distinction between administration as public and private, just as we distinguish between public finance and private finance. The great principles underlying public and private finance on the one hand, and public and private administration on the other hand, are the same in each case. When public officers get too far away from those common principles underlying both public and private finance and administration, signs of corruption or perversion of the functions of public office appear; political incom-

Not read at the meeting.

petence and inefficiency displace or replace economic competence and efficiency.

Administration is undoubtedly a branch of economic science, and a part of the historical development of economics. For the first broad recognition of this fact we must turn to the cameralists. In the writings of Justi and Sonnenfels, for example, we may find principles of administration elaborated as well as principles of finance.

Wherever we have a high degree of economic organization in public or private economy, there we have a theory and an art of administration. A scientific study of economic history will demonstrate this proposition.

Administration must be related to economics both in its generalized and specialized aspects. In its general aspects administration must be related to economics both through a course in general economic history and through the course which we usually describe as the course in Principles. Through these two courses the student should acquire that knowledge of,-that is, a general introduction to,-the general principles of administration to the description of which Professor Jones has devoted more than one half of the paper which he submitted to me. In its specialized aspects, administration may be given as a separate course. In this aspect, the study of administration may be offered in the junior or senior year after the courses above noted have been set up as prerequisites. These prerequisite courses should be supplemented as far as possible by general courses in history, mathematics, and science, and the incidental knowledge of biography and history which the various literary courses of the high school and earlier years of the college offer. When the student does enter upon the formal study of administration, he should enter upon it as a specialized branch of economic science. Broadly, such a specialized course should consist in a study of those topics which Professor Jones summarized in perhaps the last third of the paper.

This summary I would put thus:

1. The mechanics of administration or its technique. Here belong the bulk of the books recently written as contributions to the art of factory management. They embrace a treatment largely of the purely muscular and physical factors and conditions.

2. What I infer Professor Jones would wish to describe as the policy of administration and the bases of efficiency. The mental

and ethical factors of efficiency have been least developed and are least studied and understood. Here Professor Jones places so much stress on the mental factors of business administration that we ask whether we are in psychology or economics. Again, I am tempted to ask whether this paper is a study of ethics. Sciences, to be sure, must borrow from each other. What are the rules that will guide the administrator in the successful conduct of his business? My contention here is that we must derive our psychological and ethical guiding principles not only from psychology and ethics, but also from economics and sociology, which are themselves products in large measure of psychical and of ethical analysis.

3. What Professor Jones calls the literature of administration I would cut down by a large common fraction, and select one of a low denomination, thus making a large cut. The literature of administration as revealing the basis of efficiency remains largely vet to be written.

I would venture to urge that in seeking the bases of efficiency we must add to the physical factors which give us the mechanics of administration a study of the mental and moral factors which will give us the dynamics of administration. And in this search for the bases of efficiency, I would insist on the necessity of two side studies, two corrective disciplines,—methods we should perhaps call them rather than sciences. Logical methods we must regard as themselves parts of every concrete science. These two methods or disciplines which can not be ignored or dispensed with in any thoroughgoing system of administration are (1) accountancy or accounting, (2) statistics. What is usually described as cost accounting would generally be more accurately described as managerial statistics.

Let me close with four general observations: (1) The contrasts between military organization and industrial organization are many and striking. (2) Principles derived from military organization must be greatly modified before they can be applied to industrial organization. (3) Leadership must be distinguished from administration both in war and in business. (4) I would consider business administration generic; business management, cost accounting, managerial statistics, salesmanship, and other subdivisions as details or branches of business administration.

EFFECT OF INCOME AND INHERITANCE TAXES ON THE DISTRIBUTION OF WEALTH

By T. S. Adams

Member Wisconsin State Tax Commission

I.

If I understand the statistics aright the federal income tax (for which, including corporations, only 357,598 returns were received last year) is reaching directly less than one half of one per cent of the population. It further appears, from the published statistics, that 1598 persons with incomes exceeding \$100,000 paid approximately \$11,600,000, or over 40 per cent of the aggregate tax collected. In Wisconsin 60,860 persons were assessed this year, representing about 2.6 per cent of the population. Of these, 667 persons having taxable incomes of over \$10,000 (about 3/100 of one per cent of the population) were assessed for 48 per cent of the total tax. The income tax is still, therefore, as in the days of John Stuart Mill, a rich man's tax. It is drawn predominantly from the rich and in that sense it plainly equalizes the distribution of wealth. Though I have seen no similar statistics relating to inheritance taxes, it is almost certain that the inheritance tax works in the same general way. Both taxes draw far more from the rich than from the poor and plainly operate to equalize wealth in the first instance. May they be expected to do so in the long run? Are their direct effects (shall we say "advantages") counterbalanced by indirect and less obvious consequences? May they profitably be used frankly and affirmatively in behalf of the poor? It is to these larger questions that this paper is particularly addressed.

II. THE INCOME TAX

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1. Class Taxation.—No tax which is wasted, that is, which stimulates public extravagance, can exercise a wholesome effect on the distribution of wealth. Such a tax reduces the fund of private capital, which gives employment to labor and cheapens commodities, without starting any compensating activity (except pernicious) on the part of the government. The present federal income tax is a class tax and class taxes breed extravagance. As shown hereafter, the income tax deserves approval from almost every other standpoint, but in this respect the federal income tax

needs courageous correction. Income taxes should not be levied upon the poor—but they should be levied upon all the rich, that is, upon everyone with income exceeding the amount required by the American standard of living. An income tax falling on all the rich, so defined, would be the most potent instrument procurable for inspiring and maintaining an effective interest in the conduct of government. An income tax confined to a fraction of one per cent of the population promotes class conflict, public extravagance, and a needlessly complex method of tax administration. Professor Bullock estimates that it has cost (to private corporations) from 30 to 40 per cent to collect the bond interest withheld at the source under the federal income tax. This and similar administrative complexities would disappear if the tax applied to a larger group of voters.

2. Reducing Swollen Fortunes.—Notwithstanding its class restrictions the income tax is a feeble instrument with which in a positive and effective way to reduce swollen incomes or fortunes. To enforce a progressive income tax the coöperation of the taxpayer must be secured. But to secure his coöperation the rates must be fair and reasonable. Morever, they must impress a majority of the taxpayers as fair and reasonable. The upper limit of enforceable rates is about 10 per cent, and such a rate is not sufficient to reduce swollen fortunes. If swollen fortunes are bad, they should be attacked directly and the cause removed. To let them accumulate and then tax them 10 per cent smacks of hypocrisy, and the attempt to make the income tax do the work of social reform is apt to spoil the income tax. Its virtues are fiscal. It is at its best as a substitute for taxes which exercise a positively deleterious effect upon the distribution of wealth.

3. As a Substitute for Personal Property Taxes, Particularly on Business Enterprises.—The income tax of England and America is largely a business tax. In the writer's opinion the income tax could perform its best service as a substitute for the personal property tax as applied to business enterprise. The loss in modern business is enormous, the necessary hazards are great, and a strikingly large proportion of concerns in some lines (for example, water powers, development companies, and the like) constantly totter on the brink of bankruptcy. To all such marginal enterprises the property tax is remorseless. It falls on property as much whether it is productive or unproductive, whether it is owned free or heavily encumbered, whether it is part of a praiseworthy

but desperate new business venture or part of the salvage of a dving concern. The property tax discourages experiment, penalizes industrial pioneering, retards production, reduces supply, and increases prices. In short, it is partly shifted to consumers, reduces the amount of wealth to be divided and adversely affects the distribution of what is produced. In comparison the income tax wrests little or nothing from the new, the experimental, or the unfortunate business enterprise; it helps not only the small business man, but large concerns in new and hazardous undertakings. It helps-or abstains from burdening-every business enterprise

in a bad year.

4. Does it Drive Away the Successful Business? - The income tax falls heavily on successful business concerns. Will it not drive the successful away, leaving only the weaklings? I have not been able to discover any such tendency in Wisconsin, even in the case of an isolated and exclusive state tax. With a general or inclusive income tax such effects would be entirely negligible. Many large industries are dependent upon land or definitely localized natural conditions and such enterprises must locate and stay at particular places. Others are held fairly fixed at particular places by definite markets or distributing points, or localized labor supply. Most important of all, successful business men acquiesce in the equity of progressive income taxation. What they dread is not the loss of a few dollars in taxes, but an atmosphere of suspicion and the absence of appreciation of the social service rendered by high-class enterprise, honestly conducted. Income taxes devised in a spirit of equity, reasonable in rate, and tactfully administered, drive no enterprise away worth keeping.

The knowledge that income taxes exist, and that the state will take a share of the gains resulting from exertion and investment exercises, over long periods, some repressive effect on the intensity of labor and the supply of capital. This, however, impresses me as so trivial as to be negligible, particularly when the countervailing influence of governmental expenditures is taken into account.

5. The Income Tax and Government Ownership.—The property tax puts the state in the position of a preferred creditor, and a harsh one. Its dues must be paid by the business man in the development period of the business, before profits are earned, and later whether profits are earned or not. The income tax, however, presents the state in the attitude of a partner or profit The first attitude is not wholly indefensible, nor altogether unfortunate. But with respect to business enterprise it needs to be softened by increasing emphasis upon ability to pay. There is a growing feeling among the operators and owners of public utilities that government ownership and operation are inevitable. This feeling or movement is measurably stimulated by the rigors of the property tax. The railroads of this country, for instance, are at present paying over 16 per cent of their net earnings in taxes, and in some states the proportion exceeds 20 per cent. If our tax system gave greater scope to the net income principle, it would materially enhance the chances of private ownership and operation. The income tax works for the retention of private management; it makes the state, not a preferred creditor, and not the sole owner, but a full fledged and sympathetic partner in private industry.

III. THE FACTORS OF PRODUCTION

1. Rent and the Landlord.—The income tax takes a smaller share of rent and is easier on the landlord than the property tax, because unproductive land does not pay an income tax, because the property tax rests upon present value of anticipated rents or earnings, much of which never materializes, and because the revenue from the income tax tends in a measure to reduce the rate of property taxation. Morever, the largest landlord class in America—the farmers—escape the income tax by reason of the exemptions. In Wisconsin, with exemptions which average \$1228, less than 5 per cent of the farmers were assessed for income tax and the tax on this class averages only \$7.66. Where the income tax reduces the property tax, or prevents increase in its rate, real estate investors are pro tanto beneficiaries of the income tax.

2. Labor and Wages.—Less than one half of one per cent of the laborers of Wisconsin were assessed for income tax in 1914, and the tax upon those assessed averaged only \$2.91. The laborer, therefore, is less adversely affected by the income tax than by the property tax or by customs and internal revenue duties. Where, as in Wisconsin, the income tax is introduced as a substitute for the taxes on household furniture and allied forms of personal property, the income tax may positively benefit the laborer. With professional and salaried men, however, the reverse is true. Speaking generally, they are called upon to make a substantial contribution under the income tax, whereas they are often exempt, or practically so, under the property tax. In Wisconsin

more than 50 per cent of the lawyers pay income taxes, averaging about \$60 each. Probably a majority of the physicians and surgeons, public officials, and members of the miscellaneous profes-

sions pay substantial income taxes.

3. Capital and Interest. In Wisconsin the heaviest contributors are money lenders, retired business men, and the investing classes generally. The average income tax in this class in Wisconsin exceeds \$100. Such classes usually escape or shift the burden to the borrower under the property tax, but this cannot be done under an income tax if properly framed and applied. In general the income tax imposes a comparatively large burden upon interest.

4. Enterprise and Wages .- In Wisconsin the heaviest aggregate contribution comes from merchants and manufacturers, particularly the latter. The income tax does not reduce the share taken from entrepreneurs, but it redistributes and readjusts it, sparing the small business man and the marginal enterprises. In general the income tax actually accomplishes what it is designed to do, that is, secure a large contribution from investors, successful professional or salaried men, and from business concerns which have reached the dividend-paying stage.

IV. SAVING, THRIFT, AND THE REDUCTION OF CAPITAL

1. The Problem .- Nearly all taxes are paid from income. But income in turn is divided between "productive" and "unproductive" uses; it is consumed or reinvested, and the form of the tax exercises an important influence on the amount which will be reinvested. The rich, it is widely believed, save a larger proportion of their incomes than the poor, and the income tax is predominantly a tax on the rich and well-to-do. Will it not, therefore, cut heavily into the wealth set aside for future production and so imperil the capital fund of the nation?

2. Saving and Thrift .- A man balances or equilibrates the various items of his budget until the marginal satisfaction is the same in each department. If, now, a typical taxpayer has his income reduced by the imposition of a tax, it seems reasonable to conclude that there will be a reduction in the general level of expenditure, and that this will affect all lines of expenditures. His savings will be diminished but his harmful and unnecessary consumption will also be diminished. It is not impossible—a priori it is even probable—that the reduction in saving will largely depend upon the proportion of savings to unnecessary expenditures.

If the rich taxpayer uses 20 per cent of his income for necessaries, 60 per cent for conveniences, luxuries, and vices, and 20 per cent for savings, then it seems to me likely in the long run that any tax will come one fourth from savings and three fourths from expenditures for conveniences, luxuries, and vices. At any rate I can think of no more reasonable hypothesis.

If the income tax is introduced as a substitute for other taxes weighing more heavily on the poor, it seems inevitable in the long run that a share of this exemption will go to swell the savings of the poor. Suppose, for instance, that a typical taxpayer who is so relieved has been spending 80 per cent for necessaries, 15 per cent for conveniences, luxuries, and vices, and 5 per cent for savings. Such a taxpayer in the long run may reasonably be expected to use any increase in income one fourth for savings and three fourths for additional conveniences, luxuries, and vices. Other things being equal, it is the quantitative relation between saving and unnecessary expenditure which counts. If the rich save 20 per cent of their incomes and spend 60 per cent for unnecessaries, then the ratio of saving to the elastic part of the whole income is the same as in the case of the poor, who spend 15 per cent of their incomes for unnecessaries and save 5 per cent. A priori a strong case could be made for believing that the relief to the poor swells the capital fund as much as the draft upon the rich reduces it, or at least that the former effect is more nearly compensatory than has been supposed. In this connection three things must be remembered: The very poor do not pay direct taxes. Increased taxation of the rich, therefore, frequently relieves a middle class of relatively thrifty habits, who do a large amount of saving. Secondly, the relinquished saving of one very rich man makes possible an additional saving on the part of hundreds, perhaps thousands, of poor men and women. From the psychological and moral aspect the wider encouragement to the poor more than counterbalances the more restricted damage to the rich. Finally, the effect of the public expenditures on increasing the demand for labor and improving the status of the poor, must be taken into account.

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3. Intra-Business Saving.—A large part of the annual harvest of thrift, perhaps the largest part, consists of profits earned by business concerns and turned immediately back into the business or reinvested in related kinds of productive activity. The income

tax reduces this variety of saving. But if it is introduced as a substitute for more regressive forms of business taxation, it is probable that the new savings made possible by the tax will be quite as large as the reduction of old savings effected. The Wisconsin statistics, for instance, indicate that large corporations are distributing a larger proportion of their earnings to stockholders than are the smaller corporations. We must also take into account the negative stimulus given by the income tax to commercial experimentation, industrial frontiering, small business, and new enterprises in general.

V. THE INHERITANCE TAX

1. General.—In Europe the inheritance tax yields enormous revenue and in this country its use is rapidly spreading. It is now on the statute books of over forty states and the revenue increased from about \$10,000,000 in 1908 to \$26,470,964 in 1913. The rates are low in this country, averaging probably less than 3 per cent, even on the largest estates with more than an average share passing to distant relatives. The tax is almost certain to expand rapidly. It does not burden the poor; it is not shifted; it does not drive out marginal producers; it does not destroy business; it does not repress industry or thrift.

2. Does it impair the capital fund?—The most formidable charge against it is that it trenches on capital or is paid out of the fund of social savings. Most other taxes are paid out of income, only part of which would be saved or reinvested. In consequence such taxes are drawn in part only from savings. When the executor of an estate, however, sells land or securities to pay an inheritance tax, they will be purchased by men with money seeking investment. In this way the state takes part of the savings of society, and on first sight the whole tax appears to come from social income set aside for reinvestment. It is not true, however, that the whole tax is drawn from social savings destined to nourish and extend productive functions. Had the inheritance tax not been imposed, part of the tax, perhaps a large part, would have been wasted or spent for unnecessaries by the heirs and beneficiaries. What is principal or corpus to the estate is "fortuitous" income to the distributees of the estate, and like other income will be only in part reinvested or saved.

3. "Public Capitalization of the Income Tax."—It is probably true, however, that a larger part of inheritance income is saved

than of the ordinary income, and consequently that the inheritance tax does trench more heavily on capital than many other taxes. The American inheritance tax is now so light, however, and there is so much room for harmless expansion, that this characteristic of the tax gives no ground for immediate anxiety. If it ever creates a real danger, the danger may be met by using the proceeds of the inheritance tax to pay off public debts—as suggested by Mill or to create a public investment fund—as suggested by Professor Alvin S. Johnson, or to do both. Wisconsin has a fund amounting to about \$7,000,000, which is loaned to the minor political subdivisions of the state. Interest and principal are automatically extinguished by annual payments collected along with the ordinary state and county taxes. School districts, small towns and cities, which might otherwise find it expensive and troublesome to borrow at fair rates, find in the state a fair and ready lender; but most important of all, the principal of the debt is unfailingly and automatically extinguished.

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4. As a Reducer of Swollen Fortunes .- Can the inheritance tax at highly progressive rates, be used to break up large fortunes? I think not. Legally speaking, the federal government can use this measure only as a tax, that is, the rates (particuarly if progressive) must be reasonable judged by tax standards. The states. on the other hand, are held in check by the fact that Rhode Island and a half dozen other jurisdictions do not use the inheritance tax. If the legislatures of other states enacted tax laws with rates rising to 25 or 30 per cent on large bequests, the rich would flee to Newport and other havens of refuge. A few states like Rhode Island could, and probably would, coerce the rest to adopt a moderate policy of inheritance taxation. tax rates are now too low in this country on large inheritances. They should be increased. But time and experience will probably prove that 10 or 12 per cent is the highest average rate, even on very large fortunes, which can be successfully imposed in any future period with which we need concern ourselves at this time.

5. The Present Danger.—The natural development of the inheritance tax is now being prevented by multiple taxation upon securities. Most of the harm that radical rates could do is being done, although corresponding revenues are not being derived. Some states tax securities at the domicile of the decedent, some in the state where the corporation is incorporated, some where the

¹ Journal of Political Economy, February, 1914.

property represented by the securities is situated, some where the trust company in which the securities are deposited is located, and at least one (Minnesota) at the location of the debtor (in the case of municipal bonds). Some states—including Wisconsin—use two or more bases in the same law, for example, taxing stock in foreign corporations when owned by a resident decedent and stock in domestic corporations when owned by a foreign decedent. Sectional differences of treatment are developing, the eastern states tending towards the residence and the western states toward the situs principle. Meanwhile the richer (prospective) taxpayers, encouraged by the unfairness of state legislation, devise means of evasion. This situation must be remedied by a federal constitutional amendment or by joint state agreement before the real possibilities of the inheritance tax can be fully realized.

6. Revenue and Reform.—In the case of the inheritance tax. it is not necessary to project the path of evolution far into the future in order to deal wisely with the present problem. The more we talk about 50 per cent inheritance taxes, the less real chance we have of securing the 10 or 12 per cent tax which we might wisely and safely have at once. In general it is unwise to mix revenue and reform. The monopoly price which yields the greatest net return to the monopolist is not the price which yields the largest consumers' surplus. By parity of reasoning, the tax which yields the largest net revenue is not that which represses most the evil that incidentally and collaterally it is expected to ameliorate. Mr. Carnegie would banish the income tax and found his revenue system on an inheritance tax heavy enough to shatter large fortunes. But the more reform his inheritance tax accomplished, the less revenue it would vield. The inheritance tax which he lauds would consume itself in time, and there would emerge the income tax (or something worse) which he rejects.

Excessive inheritance taxes would almost certainly be accompanied by widespread evasion. Evasion can be prevented just so long as men feel it cheaper to employ the state to superintend the distribution of their property after death than to employ private agencies. If the state ever gets to charging 50 per cent, say, for this service, it would pay rich men to employ private agents—trustworthy Rothschilds and similar honest usurers—to superintend the distribution of their property after death. This may seem strange, but the condition under which the state took 50 per cent of a fortune after the death of its owner, would also be strange.

If swollen fortunes are evil, let us not beguile our common sense by indirection. Let us go after them with something better than a lath painted to look like iron.

VI. CONCLUSIONS

Carefully formulated and efficiently administered income and inheritance taxes do equalize the distribution of wealth and do not, in an appreciable degree, set into motion any subtle, subterranean, or remote economic forces of an objectionable kind, such as the professional economist so dearly and so properly loves to analyze and evaluate. Both are better taxes than instruments of social reform. Their virtues are chiefly fiscal and so far as the distribution of wealth is concerned, negative: their greatest merit is that they can be made to yield a large revenue without adversely affecting the distribution of wealth. As a substitute for certain customs, internal revenue, personal property and gross receipt taxes, both could be wisely and widely extended at the present time. Whether they could be wisely extended as additional taxes depends altogether upon the efficiency of government and the use to be made of the new revenues which they would vield. Here, in the field of public expenditure, is the crucial test of each proposed new tax. For a wasteful and inefficient government no new tax is a good tax. Such a government should be forced by the very pressure and desire for new public service, to eliminate waste and ring out the old as it rings in the new-without enlarging the budget. The very best source of revenue is scientific saving.

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With governmental waste eliminated so far as humanly possible. the ultimate problem expresses itself as a contest between public and private enterprise, a comparison between the marginal activities of government and private business. The captains of private industry have given us in the last few years the wireless telegraph, the automobile, Rockefeller Research, and the New Haven scandal. The statesmen have brought us the Panama canal, the reserve bank, the parcel post, and the European war. Which serves most, statesman or industrial captain? Towards the great stream of income and particularly towards the part diverted for future production, both statesman and industrial captain stretch eager hands. Let him have it who can use it best. Neither, in America, may ask with divine right. Neither is sacred-or both are sacred. Private and public: I recognize no hostility and no essential difference. Both are parts of one great social unit. The public institution must be invested with the initiative and efficiency which mark private business at its best. The private institution must acquire the spirit of social service which marks government at its best. On these terms let the tax gatherers, public and private, compete. The government may have its income and inheritance taxes; the railroads may have their 5 per cent advance in rates—if they will but serve. And let the victory rest with him who serves most.

PUBLIC REGULATION OF RAILWAY WAGES

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By Frank Haigh Dixon Dartmouth College

"The food and clothing of our people, the industries and the general welfare of the nation, cannot be permitted to depend upon the policies and the dictates of any particular group of men, whether employers or employees, nor upon the determination of a group of employers and employees combined. The public utilities of the nation are of such fundamental importance to the whole people that their operation must not be interrupted, and means must be worked out which will guarantee this result."

These concluding words of the arbitrators in the dispute between the locomotive engineers and the railways in 1912 give warning of a situation to which the public has been singularly indifferent. Adjustment of working conditions has been considered a matter of private concern affecting only employer and employed. Yet the railway provides a service which is a necessity of the entire people, and the interruption of this service is a national calamity. Wage increases in this industry are usually sooner or later shifted to the shoulders of the people at large in the form of increased rates. The public's interest in railway labor controversies is supreme and should assert itself far more effectively than it has thus far in the consideration or adoption of any plans for wage regulation.

There are today on the payrolls of the railways of the United States, nearly two million men, who receive in wages annually a billion four hundred million dollars. Forty-five per cent of the gross revenues of the carriers is paid out again in wages; and of the total expense of operating all the railways in the country, nearly 65 per cent is chargeable to labor.

This great body of wage earners is by no means homogeneous. Its membership ranges all the way from the alert, intelligent, well-paid engineer down to the shifting class of day laborers engaged in track work. Neither are all classes organized to the same degree of efficiency and power. The bargaining strength of the great mass of track workers amounts to little. They have no fixed habitation, but assemble when work offers and disappear when the year's repairs are complete. Above these, but below the top, is a considerable group of occupations with organizations that are gen-

erally affiliated with the American Federation of Labor, such as the wood and metal workers, machinists, signalmen, clerks, and station agents. Finally at the top are the four brotherhoods directly engaged in train service. Although these four unions contain not quite a fifth of the whole number of employees, they represent the dominant element in the railway labor world and it is largely in connection with them that experiments in wage regulation have been tried out in this country. The oldest is the Brotherhood of Locomotive Engineers, organized in 1863, with a present membership of about 75,000. It is perhaps the most aristocratic of trade unions. In its later years it has become distinctly more aggressive. Its avowed intention is to monopolize the operation of locomotive power. Mr. Stone, the present chief of the Brotherhood, made this statement before an arbitration board in a recent case:

The locomotive engineers of this country intend to operate the motive power of this country, be it what it may, gasoline, electricity, or any other power that may be discovered; and when you put on your flying machines in the near future, we intend to operate those, if you please.

Younger by five years is the Order of Railway Conductors, with a membership of 49,000. Recently it has been associated in controversies with the larger and more radical trainmen's organization. Ten years after organization of the engineers' brotherhood appeared the Brotherhood of Locomotive Firemen and Enginemen. It has a present membership of 84,000. Because of its more favorable insurance rates, this organization retains many firemen after their promotion to the rank of engineer. After many years of strife, the two brotherhoods of the engineers and firemen have adopted a working agreement and are at present associated in a wage movement in the West. The Brotherhood of Railroad Trainmen, organized in 1883, has a membership of 135,000. It is the least homogeneous of the four, including in its number train-brakemen and baggagemen, and conductors, brakemen, and switch tenders in yard service.

All four of these unions follow a policy of strict non-affiliation with other organizations, they disbelieve in the sympathetic strike, they take great pride in their fidelity to their agreements, and they punish breaches of contract on the part of their locals. They are as a rule in favor of the open shop, although there are many ways

²The "open shop" policy loses much of its reality, at least in the case of the engineers, from the length of the apprenticeship period.

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of making a non-union man realize that he is an "outsider" other than those laid down in the constitution and by-laws. All of them have extended their jurisdiction throughout the country, and none of them has any rival of any considerable strength outside the brotherhoods themselves. The first three contain a large proportion of the eligible men and the fourth about 65 per cent of the employees in its field.

The principal point of contact between these several brotherhoods and their employers is made through the labor contract, or what is commonly known as the schedule. In the early days of railway operation and for several decades thereafter rates of pay and working conditions on each railway and even on separate divisions of the same railway were whatever the managers chose to make them. Attempts at collective bargaining almost always failed. It was the engineers who soon after the creation of their union established firmly the principle of collective bargaining, and they and the other trainmen's organizations that appeared later were able as they increased in strength to gain important concessions from the railways, and to incorporate these concessions into standard practice. Such matters were involved as promotion according to seniority of service, shortening and prescribing the length of the working day, and standardizing various details relative to operating conditions. But of more importance than all else in the history of this labor conflict was the adoption by the railways of the practice of dealing with a committee of employees, now universal on American roads.

As a rule each division of a railway has its local. The locals of a system are represented in their dealings with a railway by a general committee headed by a chairman. Above these general committees are the grand officers of the brotherhood whose jurisdiction is national. For many years it was the practice to confine all bargaining to a single railway, but the area covered by such negotiations has gradually widened with the growth of railway systems. The general committee on the particular road was always advised and aided by the grand officers of the brotherhood. These national leaders thus became highly expert in handling controversies. With a thorough knowledge of the general railway situation, they were far more than a match for any individual railway manager who knew simply his own situation. There was frequent resort to "trading," by which the brotherhoods would

secure some distinct advantage in return for a concession that cost it little. The advantage thus gained would be used as a lever on the next road, while the concession by which the advantage had been acquired would be kept in the background. So they proceeded to play one road against another. But this method was slow and toilsome. Moreover it became evident to the leaders of each brotherhood that their power could be greatly increased through combined effort, and that a demand applicable to a vast extent of territory would be far more impressive. On the other hand, the developing of intercorporate relations among the railways that linked them up into huge systems, had much to do with promoting concerted action.

Concerted movements among employees in train service began in 1907, and have grown in frequency until now, except for minor local grievances, they may be said to be well-nigh the only method by which the demands of the brotherhoods are presented. The country is divided into three great territories, the Eastern, Southeastern, and Western; and committees representing all of the railways in each of these territories meet the grand officers of the brotherhoods to arrange wage conditions for the entire area. At first the roads resisted, but the brotherhoods became so effective in such cases in securing the same results from the roads successively that they would have obtained from them collectively that the railways gave up the fight, and have for several years conducted their important negotiations as a group. At the present time an arbitration hearing is being conducted in Chicago as the result of a concerted movement involving the engineers and firemen employed by nearly all the railways between Chicago and the Pacific Coast.

Proposals for increases in wages or modification of working conditions, often radical and extreme in character, usually originate in the "locals" with the rank and file, who apparently have everything to gain and nothing to lose by making their demands as large as possible. These demands are put in shape for presentation to the roads by the association of general chairmen, the grand officers appearing as advisers and later as spokesmen in the conferences with the railways. If it becomes necessary to take a strike vote, the case is set forth in the letter to the men. This gives opportunity for an ex parte statement of the situation, which is frequently taken advantage of. The result is almost always a

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nearly unanimous vote to entrust to the grand officers the power of calling a strike. The tenure of office of these brotherhood chiefs depends in great degree upon their success in obtaining concessions from the railways. Facing on the one side the insistent pressure from the men, and on the other the resistance of the railways and the possible hostility of the public, they find their lot at times an unenviable one. They are between the devil and the deep sea. Yet they have displayed remarkable powers of leadership and have retained as a rule the complete confidence of the men. The cohesion of these organizations is a powerful element in their success.²

Territorial controversies have now become the rule, and have such strategic advantage for the men that they are not likely to One territory is now matched against another be abandoned. where formerly it was one road against another. The most significant result has been the marked movement toward complete standardization of wages and working conditions throughout the territory involved. This demand for standardization has been more or less vigorously pushed in all the recent controversies,—the same pay for the same work in the same class of service, whether train operation is on single or double track, in mountainous or level country, in branch or main line service, in suburban or through service. In fact, the standard rate has been an indispensable weapon in the leader's arsenal.3 The railways have resisted this movement on the ground that differences in physical characteristies of roads, in traffic density, and in ability to pay have made complete standardization inequitable.

It is not the purpose of this paper to discuss the merits of contentions of this character, interesting as they are. But it may be noted in passing that the railways have realized that the argument for differences in wages based on differences in ability to pay crumbles under attack, and they are not now pressing it with any vigor. It has been generally held by arbitrators that a worker is entitled to his hire, that if a road cannot pay a proper wage it must seek relief in an enhancement of its earnings, and that the public will not permit a road to furnish an inferior service through

^{&#}x27;For further information concerning the growth and policy of the brother-hoods and the results of recent arbitrations see Cunningham, in Quarterly Journal of Economics, November, 1910, and February 1913; Powell, in Quarterly Journal of Economics, February, 1914; Robbins, "Railway Conductors," Columbia University Studies, 1914.

^{&#}x27;See McCabe, The Standard Rate in American Trade Unions, 1912.

the employment of an inferior grade of men at wages below the prevailing level. This position must be accepted as sound. There is likewise much in the contention of the employees that many of the weaker roads are so interlocked with the more prosperous ones that their inability to pay standard wages is more apparent than real.

Whether or not there is justification also for disregarding differences in physical and traffic characteristics on different roads, which heretofore have been important considerations in the determination of rates of pay, this much is clear. Such disregard is tantamount to unfair discrimination among employees. It is a disregard of the individual in the larger strategic interest of the

organization as a whole.

It is interesting to observe that the interpretation placed upon standardization by the employees is equivalent to a demand for a minimum wage, for it has been usual to insert in the agreements for arbitration a stipulation providing that no existing rate of pay or standard of working conditions shall be reduced by the new rates or rules, and that committees shall not be debarred from taking up with managers matters not decided by the arbitrators. It is standardization upward but never downward. the high spots plainly in view and points the direction to future negotiations. Such stipulations concerning the preservation of existing rates hold out a promise of a continuous rise in the standard. In the engineer's case in 1912 the award was an intentional establishment of a minimum wage, the board of arbitration refusing to carry the principle of standardization farther than to raise the lowest rates, and to leave to the employees on individual roads the negotiation of contracts that should recognize varying classes of service.

Another step forward in standardization was attempted in the last concerted movement, that of the conductors and trainmen in Eastern Territory, when the demand was made that the rates of pay should be raised to equal those in the West. The comment of the board of arbitration on this point is so significant as to be

worth quoting:

by the men in this regard is in the large interest of the railroads as well as of the public; so that progress should be made in this direction as fast as circumstances will permit. In the universal conception of the day, interstate railroading is a national public utility; being such,

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uniform rates of pay for the same class of service are likely to prevail, sooner or later, in all parts of the United States where permanent natural conditions do not forbid. In the Railway Post Office Service conducted by the United States rates of pay differ according to the character of the work performed; but there is no difference of pay resting upon territorial distinctions. It is said with truth that the government is free to adopt this system because it can make up deficiencies through taxation; but it appears to the majority of this board to be none the less true that the railroads of the country, just because they are conceived of as a national public utility, will in the end be obliged to conform their practice to the government practice in this regard. The rates which railroads are permitted to charge, both for passengers and freight, must in the opinion of this board be adequate ultimately in all parts of the country to permit uniform rates of pay to be paid. . . .

That the brotherhoods have in mind ultimately a national standard of wages and working conditions, there is some evidence, but a national movement will not be inaugurated until it is found to be strategically advantageous. The first duty of the unions while in the midst of a conflict is to win their case, and they use such arguments as are most effective at the moment. The controversy just referred to furnishes an illustration in point. The argument for national standardization was urged by the conductors and trainmen because they were trying to raise the eastern wages up to the level of the West. When they reach the West, they are very likely to lay stress on the greater cost of living in that territory, and to insist upon a restoration of the previously existing differential in favor of the western area. In controversies in the East cost of living has not been emphasized, Mr. Stone of the engineer's brotherhood insisting that cost of living is after all what each man chooses to make it. Inconsistencies in proposed bases for increased wage rates, and in arguments supporting the proposals, constantly appear in cases presented by the same brotherhood officers in different territories, inconsistencies so striking as to defy any explanation, except that they are of value for immediate strategic purposes. The result of it all is to raise the lower end of the wage scale and to smooth out many of the differences in working conditions on different roads and in different territories. But these results have been attained in a haphazard fashion, and are attended by much discrimination. There has been little in the whole process up to the present time that could be designated as scientific.

A further movement is now in progress to secure the association

of all the brotherhoods in one united demand upon the roads. On more than twenty-five railway systèms federation of the four brotherhoods is in effect, and on others working agreements exist between two or three of these organizations. Recently the articles of federation of these four unions have been revised to permit coöperation with other organizations whose membership is exclusively employed by railway companies, such as the telegraphers and railway clerks. For a number of years, the conductors and the trainmen have coöperated in their wage demands. The present association of the engineers and firemen in a joint movement in the West may well be considered, in the light of earlier unhappy relations, as a fraternization of the lion and the lamb. Faced by this new ideal of a united labor force in an undivided country, the public may well give heed and devote its best thought to a consideration of its own interest in the outcome.

Thus far we have been concerned with the evolution of the labor contract. We have now to consider the extent to which public authority has played a part in the settlement of labor conflicts. And here we may well confine our attention to federal law and practice. The railway industry has become so completely independent of state boundaries that state regulation of wages has

touched only incidentally the steam railway field.

The first important federal statute which attacked the railway wage problem was the so-called Erdman Act enacted in 1898. Even this law remained practically unnoticed upon the statute books until the end of 1906. However, when its possibilities were fully realized, it was resorted to with increasing frequency, so that in the last few years those entrusted with its administration have been almost steadily engaged in mediation proceedings. The statute covered interstate railways and employees engaged in train service. It designated as mediators two federal officials, the Commissioner of Labor and the Chairman of the Interstate Commerce Commission.4 In case of a controversy interrupting or seriously threatening to interrupt the business of the carrier, the mediators at the request of either party were to endeavor to effect an amicable settlement. This failing, a board of arbitration might be appointed consisting of three persons, one named by each of the contestants and the third by the two already selected, or in case of disagreement by the mediators. The board was to begin hearings within ten days after choice of the third arbitrator and to file its

^{*}Later amended to permit the retention of the same individuals as mediators.

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award within thirty days of his appointment. The signed agreement to arbitrate had to carry a stipulation that the status of the dispute should not be changed pending the arbitration except that "no employee" should "be compelled to render personal service without his consent." Moreover it was to be further stipulated that employees dissatisfied with the award could not quit the service. nor dissatisfied employers discharge their men before the expiration of three months without thirty days' notice. The award was to he final unless set aside for errors of law apparent on the record. and was to continue in force for a year. The arbitrators were empowered to administer oaths, require the attendance and testimony of witnesses, and the production of books and papers. It is significant that the act provided mainly for the well organized groups of employees. In fact, it was provided specifically that the workers' representative on the arbitration board should be named by the labor organization involved, if such existed, and the federal officials were empowered to decline to call a meeting of the arbitrators unless they were satisfied that the employees signing the agreement represented a majority of those involved.

Congress had the arbitration feature principally in mind, yet that feature proved to be of far less importance and efficacy than the mediation section. Dr. Neill, reviewing the working of the law up to 1912, shows that out of forty-four cases in which mediation was invoked only eight went to arbitration, and in these eight cases arbitration was limited to certain points in which mediation had failed. Four other cases were submitted to arbitration directly.

During the years in which this statute was in force, there was no case of repudiation of the award of an arbitration board. Mediation likewise accomplished its purpose in practically every case of importance in which it was employed. Procedure under the act was purely voluntary. Neither side was compelled to resort to it, and neither side was obliged to accept the offer of mediation after it had been made. Furthermore, the mediators had no power to intervene until invited by one of the contestants. Yet in spite of the strict legal limitations of the statute, the imperative necessity for uninterrupted transportation and the power of the public to bring its will to bear made the appearance of "free will" in large degree illusory. Railway managements, faced with the problem of suspension of service, realized its heavy cost to them financially

and likewise fully appreciated the fact that an inconvenienced public would be deaf to any appeal on the merits of the controversy, and would visit its wrath upon the delinquent corporation. Therefore it is not surprising to find that the railways as a rule were the ones to appeal to the mediators, and it speaks for the brotherhoods' sensitiveness to public opinion that with very few exceptions they agreed to mediation, even though in most cases they possessed the strategic advantage in the controversy. It has been stated that the mediators were not empowered by the Erdman Act to intervene of their own initiative, yet they did so more than once at the request of the President of the United States. What appears to be only voluntary "getting together" becomes practically compulsory when the head of the nation, representing the whole people, sends his "mediators" to the scene of impending conflict. Refusing to listen to the "request" of the President is like refusing to pass over your pocketbook when there is a pistol at your head. That the power of the President is a very real one may be shown by the latest and most striking case of his intervention. In connection with the controversy between the western railways and the engineers and firemen under arbitration in Chicago, when the federal mediators had been called in, and a crisis had resulted from their failure to secure an agreement, the following telegram was received from President Wilson:

Before final adverse decision by either side, I think it my duty to ask for a conference with representatives of both sides designated to confer with me. Mediation must not fail.

At the conference which followed, the President presented to the railways the extreme gravity of the situation into which the country would be plunged if a strike should occur, especially in view of the conditions brought about by the European war. He expressed the conviction that no peaceful solution was possible except that proposed by the mediators, which, as will appear was merely that of arbitration on the basis demanded by the employees, and appealed to the patriotism of the railways, and to their regard for the public welfare to make whatever sacrifice was necessary to avert a national disaster. No course was open but to accede to the President's request with the best grace possible. While it must be conceded that the President has in such cases performed a real service in the public interest, it is impossible to regard his action as wholly uninfluenced by any ulterior motive. He is the head of a party as

well as the head of a nation, and labor disturbances are not conducive to party success. This practice, unauthorized by statute, has such possibilities of unwise exercise that it should be employed only when there is no alternative.

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As controversies assumed larger dimensions and the concerted movement became a regular and apparently a permanent method of negotiation, it was realized that a board of three members, in which the decision lay with one man alone, was too small a body to which to entrust issues of such magnitude. This was the motive for replacing the Erdman Act in 1913 with the so-called Newlands Act. At this time negotiations were being conducted between the railways and the conductors and trainmen in Eastern Territory. sides realized the desirability of a larger board and pressed for immediate legislation. Certain changes in the form of procedure long recognized as needed were also urged and adopted. Newlands Act provides first for mediation by a Board of Mediation and Conciliation consisting of a permanent commissioner and two other government officials. They are given the power not possessed by the former mediators of proffering their services. In case the controversy goes to arbitration, the board may consist of six members rather than three, if the parties prefer—two representing each side and two intermediaries chosen by a majority vote of the four. In case of failure to choose in this manner, the selection is made by the federal mediators. Details of arbitration procedure need not here be dwelt upon, but attention should be called to the fact that a majority may make a binding award, that the board is to confine itself in its decision to questions specificially submitted or to matters directly bearing theron, and that misunderstandings concerning the interpretation of the award are to be referred back to the board. Under this act the conductor's and trainmen's arbitration of last year was heard and under it the present hearings in Chicago in the engineers' and firemen's case are now being conducted. The engineer's arbitration in Eastern Territory in 1912 was held under an extra-statutory agreement which provided for a board consisting of one representative each from the railways and the employees, and five men representing the public.

We have therefore witnessed in this country a series of concerted movements extending over great stretches of territory and covering the period from 1907 to the present time, in which four different methods of settlement have been applied,—mediation under the Erdman Act, arbitration under the Erdman Act, mediation fol-

lowed by arbitration under the Newlands Act, and arbitration by voluntary agreement outside the statute. Which of these methods, if any, is a panacea for labor troubles on interstate railways? If no one of them stands the test, can our experience with them be made the basis for a better solution of this difficult problem?

At the outset it may be asserted that the avoidance of labor conflicts is not the sole object or the ultimate goal of wage-regulating legislation, and that the absence of strikes is not a final index of the success of the laws which have been described. It is of course obvious, particularly when the transportation industry is under consideration, that the maintenance of normal operating conditions is an end greatly to be desired. From the standpoint of the general public, which can only occasionally be made to look below the surface, this appears to be the one and only object of all legislation relative to mediation and arbitration. It seems to be the thought uppermost in the mind of our Chief Executive when he makes his appeal to the railways in behalf of the American people. This is doubtless the expression of a feeling that whether or not the results of mediation are absolutely just and fair to both sides. the likelihood of any more equitable outcome from a labor conflict is somewhat remote, and that even if a more satisfactory verdict were reached through force of arms, the advantage would be far outweighed by the cost of the conflict. Moreover, although it would be rash to assert that there will never be another railway strike of large proportions, the likelihood of such an outcome of any controversy is growing more and more remote. We have not had a railway strike of any magnitude for twenty years. It is true that the balance of power in the control of wage conditions has passed for the moment from the railways to organized railway labor. It is true that strike votes are always taken, and that these result in entrusting to the grand officers of the brotherhoods the power to call a strike at their discretion. But these polls are in most instances mere devices to strengthen the strategic bargaining power of the organizations. It is always the confident expectation of the grand officers that possession of the power will make its exercise unnecessary.

Prompt adjustment of the instant controversy was the service that the able mediators under the Erdman Act, Judge Knapp and Dr. Neill, performed. They succeeded in nearly every mediation which they conducted in reaching an adjustment to which both sides were willing to agree, and today railway managers and employees are unanimous in commending the work of those public servants. They prevented labor conflicts, an outcome which satisfied the public, and they compromised the disputes with such a degree of success that although neither side was satisfied, both were willing to abide by the result and the employees were contented to delay for a season a renewal of their attack upon the railway "wage fund."

The wisdom of so framing the statute as practically to designate two specific individuals as mediators became evident, as these gentlemen grew more and more familiar with the complex details of the wage schedule and were able to adjust controversies with increasing intelligence. It more than once happened that they were called in to pass on the merits of an existing schedule which they themselves had had a part in constructing. The element of permanence in the mediating body made possible the development of an expert proficiency in the work of adjustment. The weakness of the method was contained in its very nature. It was a mediation and not an arbitration. The function of the mediators was in no real sense to enter into the merits of the controversy. Judge Knapp has thus interpreted their duties:⁵

It has been the conception of those who have acted in this capacity that their duty is not to determine what settlement they think ought to be made, but to find out what settlement can be made. Although the public is really the third party and perhaps the most important party to a labor dispute, nevertheless the public, that is to say, society, is not concerned or interested in the terms of settlement. All society asks is that there be a settlement, so that the work may go on without further delay.

Dr. Neill writes as follows:

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on oth Their functions consist solely in exercising friendly offices and attempting to harmonize the differences existing between the employer and the employees and by inducing concessions from each side to bring them to a voluntary agreement upon all the points at issue.⁶

This policy of seeking an adjustment rather than a judgment on the merits of the issue is well shown in the engineers' and firemen's case of this present year in Western Territory in which President Wilson intervened. When the employees presented their demands, the railways canceled existing schedules and made counterdemands.

Proceedings 12th Annual Meeting, National Civic Federation, 1912, pp. 30-31.

U. S. Bureau of Labor Bulletin No. 98, p. 15.

To these the employees vigorously objected, insisting that they would give up nothing that they had gained in their years of struggle, and refusing to consider any terms except those which they themselves had proposed. The federal mediators when called in, accepted the point of view of the employees, apparently because they found that there was no other way to avoid a strike. This "compromise" the employees promptly agreed to, contending that they had gone half way in accepting arbitration at all, since they had earlier asserted that they would never again resort to a method which had produced results so unsatisfactory to them. Hence the railways were put in the position before the public of declining the proposal of a federal mediation board which the employees had accepted. They had been out-manœuvered and their capitulation was inevitable even before they made their call at the White House.

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Statistical demonstration of the compromise character of the mediation verdicts is shown in the following summary, prepared by Professor Cunningham of the rates of pay in force, demanded, and awarded by the mediators, on the Baltimore and Ohio Railroad in 1910. It should be noted that the old rates on the Baltimore and Ohio were at the time the highest rates paid in the East with the exception of those on the Pennsylvania, and that the award was made the principal basis for settlement with all the other eastern roads. The award is a perfect example of "splitting the difference."

BALTIMORE AND OHIO RAILBOAD-1910

	OTILO REALLINGS	The Table	310	
			Cents per	mile
		Old	Rates	
Through	9	Rates	Demanded	Award
Through	Passenger Conductors	. 2.60	2.75	2.68
Through	Freight Conductors	.3.465	3.80	3.63
Through	Passenger Brakemen	. 1.33	1.65	1.50
Lurough	Freight Brakemen	.2.31	2.53	2.42

It may be pointed out here that those who rhapsodize over the beauties of mediation as a means of bringing together in brotherly converse the employer and his employees, do not correctly describe the situation as far as railways are concerned. In these railway wage controversies the two sides never see each other. The mediator does not even carry messages from one to the other. He is the confidential repository of the concessions which each side is willing to make, and when these concessions have become sufficiently large to bring the contestants together he proposes a compromise. It is

Quart. Jour. of Economics, Nov., 1910, p. 144.

a game of strategy in which diplomatic talent of the highest order is required on the part of the mediator.

It is worthy of note that in no instance has the original demand for a modification of existing schedules come from the railways. Railway managers have apparently felt it wiser to let well enough alone. They have preferred to cut down or readjust their working forces in times of light traffic rather than bring on a struggle by upsetting fundamental conditions. This is partly to be explained by the fact that during most of the period under consideration railways dealt separately with their own employees and were in a weaker position strategically than now under the plan of concerted movements. Moreover, it is more than probable that increases in wages did not distress them so seriously in the days when the capacity of their plants left some leeway for expanding business, and when there was a more generous margin between income and outgo.

In view of the fact that the controversies have always had their origin in a demand from the side of the employees, the verdict even though a compromise has always resulted in giving something to the men. It has meant a steady increase in wages and a steady improvement in working conditions. This does not mean that the increases are necessarily unjust. But under the conditions—with the strategic advantage on the side of the employees whether dealing with one railway or a group—the result is inevitable. Even if the railways' unwillingness to grant the demands has merit, there is no way of enforcing their claims. Playing a game in which the cards are stacked against them, they must acquiesce in the outcome, which usually whittles down but never rejects the demands of the employees.

These mediation proceedings in the nature of the case have been secret. No details have ever been given out and even the agreement has not been made public unless the parties authorized it. It is evident therefore that the public has had little information upon which to judge the equitableness of the settlements. They have only known that peace has reigned.

As the size of the contesting forces has widened the gap between employer and employee, as the conflicts have become more serious, and as the increasing gravity of the railways' financial condition has made a wage increase a matter of genuine alarm, resort has been taken more commonly to the method of arbitration. This has

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meant the choice of one, or under the amended statute two, non-partisan arbitrators. Selection has been a task of the greatest difficulty. In almost no case have the representatives of the contestants been able to agree on the independent member or members of the board, and the burdensome duty has fallen on the government mediators. These officials have as a rule consulted the two sides before making their selections, and have often requested lists of acceptable men, in the hope, says Dr. Neill, that at some time the same name might appear on both lists, but it never did.

The independent arbitrator, like the juryman, must have no preconceptions. His affiliations with life must be untainted by contact with railways. If he has ever had experience in an arbitration, he is likely to have incurred the displeasure of one side or the other sufficiently to render him unacceptable. It follows that he must be a man so far removed from the controversy and so completely dissociated from the railway industry that qualification for his task necessarily involves profound ignorance of the subject.

But it is obvious that while impartiality and diplomatic skill are necessary, ignorance of the questions at issue is not. A wage schedule is a complex affair and its complexity is growing with the tendency to lay greater stress on working conditions and less on rates of pay. In the conductors' and trainmen's case, for example, the board had to consider the demands of conductors, baggagemen. brakemen, and flagmen in passenger, freight, and yard service, in local and through service, in electric and steam service; and it had to pass upon questions such as length of the working day, overtime and how computed, compensation for deadheadings, for doubleheaded trains, and for holding men away from their home terminals. The representatives of the two factions are experts chosen for their thorough knowledge of the issues and their skill in presenting them. The umpire enters the hearings usually with no acquaintance even with the elementary principles of railway wage schedules. listens to the highly technical testimony of witnesses-employees and operating officials-and at the conclusion of the hearings he is set upon in conference by the other two so-called arbitrators. His superficial half-knowledge results in inconsistent rulings, and his lack of background leads him to the natural conclusion that there is merit in the contentions of both sides, and that justice lies somewhere between. The unsatisfactory verdict, frequently ambiguous and conflicting in its different provisions, gives opportunity for a

further continuance of the struggle on the individual railways that have been parties to the concerted movement. Employees take advantage of the vagueness of the award to demand terms from their own immediate employers that were not contemplated by the board, and railways use these ambiguities as an excuse for delaying the inauguration of the new schedule until supplementary rulings can be obtained. These decisions of arbitration boards lay down no helpful precedents for future action, and have no general educational value. The situation is in no wise improved when two umpires take the place of one. What is needed in the independent arbitrators is not merely a high degree of mentality or diplomatic skill, or profound knowledge of the labor problem in general, but rather a thorough familiarity with conditions of railway labor. This compromise practice into which independent arbitrators are forced by their lack of expert information is illustrated in the conductors' and trainmen's case in Eastern Territory last year. In that case the railways contended that the employees had received increases in 1910 which placed them on a par with other classes of trainmen in 1913 and that therefore no increase was justified. With this position the employees took issue. It was a critical point in the case, yet the arbitrators were unable, by their own frank admission, to become sufficiently competent in the space of the two months allowed by the agreement, to decide this fundamental issue.

But not alone in the actual awards have the decisions of the boards been unsatisfactory. In many cases the explanations of these decisions have been unimpressive, and the reasoning unacceptable. In the firemen's case in 1913 the arbitrators, with a shrewdness which ought to find more imitators, handed down their decision and gave no reasons whatever. A careful reading of the decision in the conductors' and trainmen's case leaves one with a lurking suspicion, which it is difficult to dispel, that the board decided first on the amount of increase to be granted and later found a reason therefor. The engineers' board of 1912 discussed at some length the insoluble problem as to what is the basis of a fair wage. They were forced to the conclusion that the science of economics furnished no answer, and that they could only approximate an answer by comparing railway wages for similar service in other parts of the country and wages in other industries of like character. It is no reflection on their method to point out that in order to use this comparison they employed statistics the value of which was extremely doubtful. How the award of this board was received by the railway labor world in general cannot be expressed better than in the picturesque language of Mr. Stone, chief of the Brotherhood of Locomotive Engineers, in his testimony before the Senate Committee on Interstate Commerce in 1913:

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men in their professions, but who knew absolutely nothing about the A B C of railroading or the fundamental principles underlying a wage scale. They would not have known a box car from a freight car, or a passenger engine from a freight engine, if they had met them coming down the street. They started in to make a wage scale for 32,000 men, with the local conditions underlying the 54 railroads, and the result was that they stayed together as a unit, and if reports are correct these five men representing the public, for fear they might become contaminated with the other members of the board, held meetings of their own, which, if true, was an offense absolutely inexcusable, in my opinion. The result was that when the full board did meet the steam roller worked overtime and they had their own way. We got what they called an award. Nobody knows yet what that award really means.

On the 29th day of April, 1912, we signed a contract to arbitrate. It was to be binding for one year from that date-May 1. It expired on May 1 of this year. On the 28th day of November they handed down the first draft of their award. On the 16th day of February they handed down a subdraft of the report, or rather an additional explanatory draft of what the original draft really did mean. And now we are back to them trying to find out what the last award they handed down really means. And now that the time limit has expired-on May 1 of this year-only 19 roads of the 54 have put it into operation, and we are still trying to get the rest, and we hope at least that our grandchildren will get the benefit of the award. . . . They were very learned gentlemen in their particular class. One man has an international reputation as a geologist. He wrote a part of some 80 or 90 pages of this report, on political economy and sociology, and arbitrated a number of questions that no one dreamed would ever be arbitrated. That was the unfortunate feature of it.

Possibly Mr. Stone's indignation was somewhat enhanced by the relatively small increase in wages that he obtained. But his criticism of the method of arbitration is fundamentally sound. Being extra-statutory, the board declined to put witnesses under oath. Its decisions were not confined to the testimony. On the contrary, several months were spent in accumulating additional material after the hearings closed. Its rulings were capable of much misinterpretation, and negotiations on individual railways dragged on interminably. The men did not care to renew the experiment.

It becomes clear then that a substitution of arbitration for mediation has lost to the country and to the contestants the expert service of trained mediators. Moreover, because of the method of selection, and the type of men chosen as intermediaries, the arbitration procedure has become largely a formality resulting in compromise verdicts, which as shown by the discussion have not been thus far as satisfactory to either side as were the agreements under the mediation process. We have not therefore obtained either from the mediation method or that of arbitration results of enduring value. Under the policy of mediation we have developed experts in the interpretation of railway wage schedules, but these experts have been debarred by the very nature of their office from considering issues on their merits. Under arbitration, the forms of a judicial hearing have been conscientiously observed, attempts have been made to weigh evidence and to reach just conclusions; but the men upon whom the burden of decision has fallen have not been experts. One of the important consequences of this is that the public, whose agents the independent arbitrators are supposed to be, has been at a disadvantage, and has not been adequately represented.

It must be clear that we need above all things else, for the handling of these great labor disputes, a group of independent persons who have become expert through permanence of tenure. Will such men be chosen voluntarily by the two sides as arbitrators or are they likely to incur to such an extent the hostility of one side or the other as a result of some one of their awards as to make their services useless for succeeding arbitrations? It would be natural to expect that any permanent body of arbitrators would quickly become unacceptable to one side or the other or both. The long continued success of the mediators under the Erdman Act was in large part due to the fact that they made no pretense of settling questions on their merits. A settlement after thorough investigation will not usually strike the middle point between the contesting sides. Again it is the fear of the employers that such a board would "get into politics" and of the employees that it would fall into the hands of the employing class. Mr. Carter, president of the firemen's brotherhood, asserts that if the same class of men were selected for permanent arbitrators that is usually selected for higher judicial positions, we should find men whose recognition of property rights was more pronounced than that of the rights of man.

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If such a board of official arbitrators were created and the parties to the contest should refuse to invoke their services, ought they to be compelled to do so? Ought we to attempt to introduce compulsory arbitration? Such a proposal does not at the present time command serious attention. The enthusiasm for it in this country has perceptibly cooled in recent years. I agree with the position of Professor T. S. Adams that compulsory arbitration applied to a public service industry like the railway would probably be held to be constitutional, and I am inclined to believe that his plan for "compulsory collective bargaining" in industries of this character is economically workable. But the impracticability from the political standpoint of this form of arbitration rules it out of consideration for the present.

Compulsory arbitration has not realized its early promise in countries where it has been tried. One of the fairest and most sagacious students of the labor problem in the South Seas, Dr. Victor Clark, has reached the conclusion that compulsory arbitration has been successful only among unorganized laborers and that the powerful trade unions have not been prevented from striking when it has been to their interest to do so. Compulsory arbitration succeeded in the early years when the laborers were securing constant increases in their wages, but the ardor of the unions has cooled as the verdicts have become less favorable. It is of interest to note that even in decisions under compulsory arbitration the lure of the compromise is ever present. A recent investigator of conditions in New Zealand has the following to say concerning the basis upon which decisions have been rendered:

The various judges who have at different times presided over the court disclaim for their judgments any basis of profit-sharing. Nor do they seem to have taken more than general notice of increasing cost of living, though this point is often emphasized by the trade-union representatives in argument before the court. The customary wages in the industry under review and in others of a similar nature have some bearing on the results reached, but in general it evidently has been a case of "charging what the traffic will bear," or as Judge Heydon of Sydney stated it, the men are given what in the court's opinion they might have secured without a court, considering their own union strength and the resisting power of their employers.

This seems to throw us back to the point from which we started.

As a matter of fact the situation is hopeless, and will remain so,

Adams and Sumner's Labor Problems, p. 328.

^{*} Kennaday in Yale Review, May, 1910,

as long as we delude ourselves into thinking that we can under present economic conditions find a basis for wages in any theory of ultimate reasonableness. It may be that we are not merely chasing a will-o-the-wisp when we are hunting for a reasonable wage, but we are at any rate seeking the unattainable. in the determination of a wage scale than in the determination of a railway rate is there an exact mathematical formula for reasonableness. So long as the two parties to the dispute are free to dicker undisturbed by outside influences, the conclusions reached will be the resultant of the bargaining skill and brute force of the contending factions; if arbitrators intervene guess-work and compromise will play their part. Moreover, we are dealing here with an industry in which an interruption of service quickly becomes intolerable. Consequently we cannot permit the contestants to settle their differences by employing the customary weapons of labor warfare. So we set up devices under the sanction of law as a substitute for force. As a rule and in the long run these arbitration boards will give to the men what they might if left undisturbed have secured by their own efforts. The public has gained peace but it has not reached any final solution of the wage problem.

No escape from the obstacles with which this question is beset will here be attempted, but it is submitted that the gravity of the situation will be much relieved, and the question far more intelligently handled, if provision is made for a compulsory investigation by non-partisan experts of the issues involved in any controversy, and for the proper presentation of the results. Specifically, the principle of the Canadian Industrial Disputes Act should be adopted in this country. This act declares a lockout or a strike to be illegal until the matters in dispute have been investigated by a government board, and pending the investigation conditions are to remain as they were before the dispute arose. In Canada, the investigating boards are temporary, appointed for the immediate controversy and discharged when their reports have been rendered. They consist of three members, one representing each side and a third chosen as umpire by the two, or, if the two fail to agree, by the Minister of Labor. However, these boards are not merely for investigation. In fact, their main purpose is to effect a conciliation and avoid a strike. Our experience with the railway labor situation as summarized in this discussion would lead us to expect that a board chosen in the Canadian fashion would not meet the requirements. While in Canada the same man has frequently served as chairman on different boards, there is no requirement that he shall do so. In this country, in the present temper of labor and capital, there is little likelihood that the same man would be acceptable for long. If a new man is chosen each time he lacks the necessary knowledge and experience.¹⁰

Those responsible for the investigation and its results should be permanent government officials devoting their time exclusively to this work. While an investigation is under way, they might very properly be assisted and checked by representatives of the two sides.

The call for expert investigators is so imperative as to require little argument. In the first place, the merits of the immediate issues need to be studied by those who possess the necessary qualifications, and all the facts that would be helpful in creating an enlightened public opinion should be disclosed. Mediators and arbitrators, limited as they have been in time, and restricted to issues directly submitted, have in most cases confined themselves to the immediate wage contract. As a consequence one adjustment has been of little or no assistance for the next. It might well be one of the functions of such a body to make the public realize that a reasonable wage is impossible of attainment. We need much enlightenment on such fundamental issues as the relation of wages to cost of living, and to railway operating efficiency. Such questions as the following are demanding intelligent answers: Is there any logical relation between railway wages and railway output? between wages and the capacity and efficiency of the plant? For example, is there any proper connection between a

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¹⁰ Professor Adam Shortt of the Canadian Civil Service Commission who has served as chairman of a number of boards, including several involving railway cases, in a letter to the writer of this article, suggests as a solution for the difficulty in Canada that three or four persons be named by the government as constituting a panel of eligible persons from which the chairman of each board must be selected. "It is essential to the most effective service of the chairman, that he should not be forced upon the parties; and yet it is equally essential that he should, in large and complex cases, have considerable previous knowledge of the conditions involved, and that he should also have experience in dealing with such cases. Assuming that one man has this combination of qualifications in greater degree than any others, he will be more frequently selected or accepted with confidence and have greater influence in effecting the desired results, if he is selected from a number of available chairmen and is not the only person allowed to serve."

trainman's wages and an increase in trainload? between an engineer's wages and an increase in tractive power? Again, have the risks and responsibilities of trainmen increased or decreased with the introduction of modern operating tools and methods? Is the working life of a trainman shorter than that of his fellow worker in similar industries outside? How does the railway employee's wage compare with that of workers in other highly skilled occupations? Are the brotherhoods receiving wages out of proportion to those of other classes of railway labor? Is there and should there be any relation between railway wages and railway revenue? Is the question of fair wages involved with the questions of fair interest and fair profits?

A group of permanent investigators would develop skill in weighing evidence, would build up a body of valuable precedent, would accumulate an experience that would be enriched constantly with the passing of the years. For these labor struggles move in cycles, and the issues that investigators had passed upon would appear again in familiar form as the basis for later demands. Morover, these men would acquire facility in the presentation of the results of their investigations in terms that the public could understand. It is essential, if public opinion is to be invoked in aid of settlements, that the issues shall be freed of all technicalities and stated in a manner to arouse public interest and stimulate public discussion. The difficulty of such a task is often underestimated.

Again, it is not too much to hope that such an investigating board might sometimes effect a settlement between the parties during the period of investigation. Professor Adam Shortt, whose connection with the Canadian Act has already been referred to, writes thus of his own experience:

... More than half the battle, in several of the largest cases on which I acted, consisted in getting one or other, sometimes both, of the parties to simply bring their case before the board. The chief argument in winning them over was that the threshing out of the situation before the board did not commit either party in advance to any feature in a settlement or even to any settlement at all. But once induced to present their cases with perfect freedom as to the results, and once the chairman could secure the confidence of both parties, a settlement was virtually insured, as the alternative evils and losses were quite obvious.

The success of the investigators in settling disputes during the progress of the investigation would depend upon the personality

of the government investigators and their skill in building up a reputation for impartiality. The tendency would of course be for them to become increasingly unpopular as time went on, for their conclusions concerning issues investigated, if of a character to command public confidence, would frequently strike hard at the contentions of one side or the other. But whether these investigators are to be permanently acceptable to the opposing factions is not after all the controlling consideration. These are public questions and it is the public that demands enlightenment.

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As already noted, such a plan would forbid strikes or lockouts during the period of investigation. After the results were published, this restraint would be removed. But the likelihood of a labor outbreak following the publication of the results of an investigation would be remote. The very fact that the contestants would be compelled to delay their conflict would have a tendency to develop a spirit of compromise. This is of great psychological import in any impending quarrel. Again, the territory involved is so vast, the leaders of the labor organizations are so mindful of their great responsibilities, the railway managers are so sensitive to public opinion and so watchful of their earnings, that strikes in any event are not at all probable in the future in connection with this class of controversies. Moreover, the probability of a strike is very greatly lessened when the public has once become thoroughly informed on the issues and is prepared to take a hand.

As for the amendment of our existing statutes covering mediation and arbitration, this may, except in details, properly be left until the results of compulsory investigation have been appraised. It has been suggested that the Newlands Act should not be confined to employees in train service, but should be extended to include all railway employees; and it has been proposed that there should be some sort of coordination between the Board of Mediation and Conciliation and the Interstate Commerce Commission in the matter of increased wages and increased rates. It may be, as has many times been suggested, that the Interstate Commerce Commission will be obliged eventually to give more attention to operating expenses and to take over the regulation of railway wages. It is clear that the Commission at present is not disposed to fall in with the suggestion usually made by arbitration boards, and raise rates to compensate for the increased wages that the boards have awarded. That these boards have taken a sound position

in insisting that they have no concern with the ability of a road to pay has already been conceded in this discussion. But the fact remains that the margin of railway net revenue is growing constantly narrower, and that the railways are contemplating with much concern the steady increase in wages which they are unable to check and the hardening of rates which they are unable to disturb.

No final solution of so perplexing a problem as that of the relations of capital and labor is to be expected within the near future, even in the field of public service corporations, but we can begin at once to study the whole question in a thoroughgoing fashion and with the use of the most highly developed scientific methods, and thus lay the foundation for a larger participation of the public in the settlement of disputes in which its interest is so fundamental.

THE SOCIAL ASPECTS OF THE PUBLIC REGULATION OF WAGES

Mes. Glendower Evans Boston, Massachusetts

The Massachusetts law for the public regulation of wages operates through a Minimum Wage Commission which appoints wage boards to sit in different industries. These boards are composed of representatives of employers and employees in equal number, and representatives of the public not exceeding one half of the number who represent the parties at interest. Wage boards have so far been appointed in three industries. But in only one, that of brush making, has a minimum wage as yet been promulgated.

The brush making industry was selected for the initial experiment, partly because it was so small that it was possible for agents of the Commission to visit practically every establishment in the state and explain the law to employers and employees who were alike ignorant of its existence; and partly because wages in this industry ran abnormally low. Statistics gathered from the pay rolls by the Commission showed weekly earnings as follows:

	Percentage of Workers Earning							
	Under \$4	Under \$5	Under \$6	Under \$7	Under \$8	Under \$9	\$9 or	
All female employ- ers Female employees	17.6	42.7	66.2	79.1	88.6	93	7	
18 years or over	9.2	33.	61.1	74.9	86.1	91.8	9	

A chief cause of these low earnings was short time, or underemployment. There were great differences in this respect, and consequently in earnings, in different occupations and in different ex

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The following groups were not included in the tabulation:

¹ A study of the brush making industry made during August and September, 1913, showed 32 establishments engaged in the manufacture of brushes in the state. From these, wage records were secured for 837 women. These represent the total number of women on the pay rolls of the establishments at that time.

^{1.} Workers who were employed less than four weeks during the year.

establishments. More than one quarter of the employees worked an average of less than 42 hours a week, and only a trifling number averaged as much as 50 hours a week.² And as to the different rates of earnings in different establishments, one establishment paid no one less than \$8 a week, and three paid no one less than \$7; while another establishment paid more than three quarters of its female employees under \$6 a week.

At the earlier meetings of the Wage Board, it was interesting to observe the attitude of the employers toward the question of low wages. All were indignant that wages were claimed to be lower in their industry than in others, and protested that the figures must be wrong, regardless of the fact that they had been gathered from pay rolls. The horror which all expressed at wages too low to allow a decent living, argued well for their liberality when it should come to fixing a minimum wage.

It was readily agreed that an industry which paid wages too low to support its employees in health and efficiency was parasitic. And it was further agreed that, from an economic point of view, the question whether or not a person was a member of a family group was immaterial.

The requirements laid down by the Commission as necessary for self-support were, respectable lodging, three meals a day and suitable clothing, some provision for recreation, self-improvement, and care of health.

Sitting around the table, the Board discussed item by item the lowest figures on which an unattached woman could support herself under the above specifications. Employers, employees, and representatives of the public, each contributed from his or her experience or from such information as could be gathered. An estimate for clothing was contributed by a representative of the public upon the Board who was connected with a department store,

^{2.} Those who worked at their homes.

^{3.} Those working in the factories, but paid by subcontractors and not by the factory directly.

^{4.} Those for whom the factory records were defective or incomplete.

In all, these four groups represented 240 persons, leaving 597 which are included in the following tables.

Besides the wages paid, additional information was secured for 484 persons. This covers data for age, nativity, marital conditions, living arrangements and industrial history. In most cases this information was given very willingly, in others it was not forthcoming.

The First Annual Report of the Minimum Wage Commission, p. 32, shows:

and was considered by him to be possible only to a woman so situated that she could pick up bargains, and who, moreover, should use great discretion in her buying. The estimates of the employees were cut at every point. Recreation was brought down to 17

Average weekly earnings: by establishments (cumulative)

ESTABLISHMENT			Percentage of Workers Earning								
			Under 34	Under \$5	Under \$6	Under \$7	Under \$8	Under \$9	\$9 and		
No. 1, .				19.8	51.5	79.2	91.4	97.0	98.3	1.7	
No. 2, .				18.4	34.2	56.8	69.5	82.6	90.0		
No. 3, .				13.3	53.3	78.3	80.0	93.3	100.0	10:0	
No. 4,						100.0	100.0	100.0	100.0		
No. 5, .					50.0	50.0	50.0	50.0	50.0	50.0	
No. 6, ,				13.2	39.5	55.8	65.8	78.9	86.8	13.2	
No. 7, .					******		9.1	36.4	36.4	63.6	
No. 8, .						40.0	80.0	80.0	80.0	20.0	
No. 9, ,				17.6	41.2	47.1	70.6	82.4	100.0		
No. 10, .								25.0	25.0	75.0	
No. 11, .		4			50.0	50.0	75.0	75.0	100.0		
No. 12, .					50.0	50.0	100.0	100.0	100.0		
No. 13, .							50.0	50.0	50.0	50.0	
No. 14, .						Tomas:	33.3	100.0	100.0		
Total.				17.6	42.7	09.2	79.1	88.6	93.0	7.0	

Hours of labor and average weekly earnings

		NUMBER OF WORKERS EARNING							
AVERAGE HOURS PER WEEK	Under \$4	r and under \$5	\$5 and under \$6	\$6 and under \$7	\$7 and under \$8	\$8 and under \$9	\$9 and over	Total	
Less than 30, .	. 5	1	*****		*****			6	
30 and less than 34,	. 4	7	3	1		******		15	
34 and less than 38,	14	8	5	2	1	2	3	35	
38 and less than 42,	21	18	9	14	6	7	2	77	
42 and less than 46,	28	33	32	14	13	5	10	135	
46 and less than 50,	. 20	58	74	19	17	5	15	208	
50 and less than 54,		3	******	3	2	.1	2	11	
54 and over,		*****	785995	1	1	777111		2	
Total,	92	128	123	54	40	20	32	489	

Note. — Data concerning hours were not available for 108 workers.

cents a week. Self-improvement was covered by a daily paper, and a Saturday Evening Post; but the latter was questioned as an extravagance. Only the most meagre allowance was made for medical service or dentistry, and none at all for insurance or for savings to bridge the gulf during sickness or unemployment or to provide for old age.

Figured upon the above narrow basis, the sum of \$8.71 was finally reached, itemized as follows:

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Board and lodging per week	\$5.25
Clothing at the rate of \$75 a year	1.44
Laundry	.50
Doctor and dentist	,20
Church	.10
Newspapers and magazines	.16
Vacation	.19
Recreation, allowing for moving pictures once in two weeks and	
a theatre once a month	.17
Car fares	.70
Total	DU FE

Very grave the employers looked during this phase of the discussion. And their surprise was obvious when the trifling items they had agreed to one by one were totaled. But no one seemed to apply the figures to his own pay roll. With \$8.71 accepted as the minimum sum upon which the independent woman could support herself, the chairman said: "I call the Board's attention to the fact that this figure is higher than the wages received by over 90 per cent of the women employed in this industry."

Did the Board thereupon proceed to asssess this sum upon the industry and assume that the bill would be met? Their task was not so simple. Employers who had before talked liberally now urged that a raise of wages would drive the industry out of the state. Brush making is subject to keen competition from other states, from Germany and Japan, and also to a slight extent from prison labor. Presumably the industry was not prosperous, as year by year it was dwindling in Massachusetts, both in the number of establishments and in the volume of output.

It is easy to argue that higher wages, if accompanied by efficient methods, would cheapen the cost of production. Our chairman, who was an efficiency expert, could speak on that point with authority. But inefficient employers do not become efficient by a mere mandate. It was easy to argue, abstractly, that an industry

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paying the lowest wages in the state had better migrate. But such a result of the first application of the minimum wage law in a heavily industrial community might well give a death blow to the attempt at public regulation of wages in this country.

Of course the only way ahead was to haggle, to compromise. That is what a wage board is for,—to find what can be done, not what is abstractly desirable; to discover a middle ground where diverse interests can be reconciled. After a long struggle, the chairman's cherished plan for a guaranteed weekly wage as a sort of retaining fee for labor, combined with time rates or piece rates for special processes, was abandoned. An hourly rate of 14 cents, to obtain as a minimum in all occupations, was the best the employers would offer.

Finally, all but one of the employers,—and he was the most powerful and perhaps the most prosperous among them,—agreed to 15½ cents an hour. But the rest of the board would agree to this figure only if it were coupled with an advance to 18 cents by the end of the year unless in the interval evidence was shown which would justify a revision. Thus after being in session for more than six months, the Wage Board stood divided in its final recommendation, the employers lined up solidly on one side and the representatives of the employees and of the public on the other.

In view of the fact that the Wage Board had been unable to carry a recommendation which included any part of the employers, the Commission promulgated only that part of it on which there was a substantial agreement, leaving to the future the decision as to a future advance in rate. Meanwhile the Wage Board remains in existence during a period of two years, and may be reconvened at any time.

The decree of the Commission declares:

1. The lowest time wage paid to any experienced female employee in the brush industry shall be $15\frac{1}{2}$ cents an hour.

2. The rate for learners and apprentices shall be 65 per cent of the minimum, and the period of apprenticeship shall not be more than one year.

3. These findings shall apply also to all minors.

4. If in any case a piece rate yields less than the minimum

^aThis under normal conditions should involve an advance in rates to approximately one fifth of the employees.

time rate, persons employed under such rates shall be paid at least $15\frac{1}{2}$ cents an hour.

5. This decree shall take effect on August 15, 1914, and shall remain in effect until altered by the Commission.

Recent inspection of pay rolls shows that on the whole the above decree is being faithfully observed, only 16 persons being found who were receiving less than the prescribed rate. This is especially gratifying, as the only penalty for noncompliance with the decree is the publication of the recalcitrant manufacturer.

On the other hand, unhappily, a number of employees are known to have been discharged. And they were told, so it is alleged, that their discharge was due to the prescribed advance in rates. Perhaps it will never be known how far this was the real reason, and how far it was due to the industrial depression which is throwing people out of work in so many directions. All that is definitely known is that one establishment closed a department which employed 16 persons, and is now supplying itself from outside the state with the article it formerly manufactured. But apart from this one instance, it is possible that the minimum wage regulation has but slight connection with unemployment in the brush making industry. It is a stroke of bad fortune that the decree took effect almost simultaneously with the outbreak of war in Europe, which so deranged the industries of the world.

Meanwhile, it must be noted that for those still employed in brush making there is no guarantee that the prescribed rate will work out in increased earnings. Actual wages is a question of hours, which in turn is largely a question of industrial conditions. And even were hours to average fifty a week,— a most improbable assumption,—the minimum wage prescribed would still reach only \$7.75 a week, which is almost \$1 less than the very low sum agreed on as a minimum requirement for living expenses. Thus, the State of Massachusetts in its initial attempt to regulate wages has made but a short step toward bridging the deficit between wages and life.

Now as to the social significance of this deficit:

It is not true, as is commonly assumed, that so few women live apart from a family group that the interests of those who do so can be disregarded. Moreover, those who are members of the family group are not necessarily at an economic advantage.

On the point of domestic conditions of women in industry,

statistical information is available. The United States government, in its nineteen-volume Report on Women and Child Wage Earners, found that 29.5 per cent of the working women investigated in Boston were either living independently of a family group or were the heads of families with others dependent upon them. The first Minimum Wage Commission, whose investigations were confined to working women earning less than \$8, found that 14.4 per cent belonged to families in which there was no adult male wage earner, and that 14.2 per cent either lived alone or were the heads of more or less dependent households. Of the remaining 71.4 per cent who belonged to families having a male wage earner, his earnings were frequently so low that he was in no position to subsidize anyone. Often he was an additional burden.

Demonstrably, the "pin-money" theory is a myth. The vast majority of wage earning women work because they must. And the vast majority earn wages far below the requirements of a decent living.

How then do they live? I answer, for the most part by enduring every form of privation. The majority of them, I believe are terribly underfed. Every study of budgets and living conditions that I know of shows this. Sometimes women confess it plainly. "I don't know how I ever lived," or "I almost starved," they will say in explaining their circumstances. Others are too proud to confess their privations. "You see I am dieting," was the explanation of a girl for her two cent lunch at a cafeteria.

Great effort was made by the first Minimum Wage Commission to get behind the pay roll and to learn something of the life story. Personal and domestic data were gathered by interviews with 4672 girls and women. The facts ascertained, of course, were chiefly formal. But intimate talks were often possible, and many visits were made at the home, where there was opportunity for full confidences. As I tried to sum up our findings, two impressions stood out clearly in my mind: first, that of the integrity of women who endure with cheerfulness and fortitude privations which need not be borne if "the easier way" were followed; and, second, that the lives of many of them were so bitterly hard as to be akin to a crime against nature.

Just imagine a young girl whose home is so meagre that she has literally no social life except upon the streets; whose every

pleasure depends upon a man to treat her; whose legitimate desires for gaiety, for love, for what she conceives as life, expose her on every hand to pitfalls. And there you have the circumstances which confront practically every girl who belongs to the lower levels of the industrial class.

Among the girls and women whom the first Minimum Wage Commission interviewed, there was one, just one, whom it was learned had illicit resources. The girl's story was very pitiful. When she talked with our investigator she burst into bitter weeping. "How can I help it," she plead. "No girl can get by on \$6 a week. She can't get by. And when I first went wrong I was hungry; honest to God, I was hungry!"

I do not tell this story that an inference may be drawn in regard to low wages which I do not draw. I tell it to illustrate the point I have made,—that a girl who earns \$6 a week, unless she is helped out somehow, must go hungry.

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PUBLIC REGULATION OF WAGES—DISCUSSION

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Frank Julian Warne: In consenting to reply to Professor Dixon's very able and clearcut presentation of the Public Regulation of Railway Wages within the short space of ten minutes, I did not realize until now what a courageous and, I might add, a foolhardy promise I had made. It is this because it is impossible adequately to make a reply in any short period of time. In order that I may have time barely to touch upon a few of the important questions, I shall ask you to assume that I have said all the nice things such a presentation as that made by Professor Dixon deserves. I shall ask you also to assume that there are questions discussed by him to which I can not even refer owing to the lack of time.

Let me first present the kernel of these concerted wage movements. They are based upon, first, the increasing productivity of railway labor and, second, upon the widespread system of intercorporate railway stock ownership.

As to the increasing productivity, it is important to realize that these concerted wage movements are confined almost entirely to the various classes of train employees. It has come about in recent years that this train machine which they are called upon to handle has increased enormously, almost beyond comprehension, in its output. The freight car, for instance, has grown from fifteen and twenty tons capacity to as much as fifty tons and more. The capacity and power of the locomotive has increased at an even greater rate. The number of cars and in cases also the number of locomotives to the train has increased. The tonnage capacity of the train machine itself has jumped forward by leaps and bounds until today there are instances of average train tonnage exceeding 1000 tons per train-mile. This illustration is, of course, the exception. So also is the statement that there are trains having as many as five locomotives in order to pull the load.

A somewhat similar tendency as to the increase in productivity is also true of the passenger service.

Briefly, it is this increase in the productive capacity of the train machine which the train employees handle that is the economic basis of the demands of these employees for increased wages and improved conditions of employment.

Now as to the other basis of these concerted wage movements—intercorporate railway stock ownership. I believe that there are very few of us who realize the remarkable extent to which the intercorporate ownership has proceeded. Roughly 68 per cent of the railway companies and as great a proportion as 80 per cent of the total single track mileage owned in this Eastern Territory is under the control of only twelve systems. In the Southern Territory, three fourths of the owned mileage is controlled by six systems. In the Western Territory, where a concerted wage movement of the engineers and firemen on all the roads west of the Mississippi River is now in progress, fourteen large systems control 76 per cent of the owned mileage.

This intercorporate ownership results in the grouping of the separately chartered railroad companies and their mileage within a few large systems. This has forced the train employees to make their demands upon the systems in the separate territories and not upon the individual railway company. You can readily see how this is. Under this intercorporate system the financial and operating report of the individual road becomes almost valueless. because of the control of the earnings and traffic operations by an entirely separate company whose interest it may be to leave the individual dependent company as little of the division of rates and of traffic as possible. Let me illustrate by a concrete example. In the arbitration proceedings of the locomotive engineers in the Eastern Territory in 1912 the exhibits of the railroads were replete with large mumbers of small subsidiary roads that were not in the best of financial condition. But when the representatives of the railway employees placed these individual roads under their proper ownerships and analyzed the same items of the owning company and of the system, the result was so different that the railway managers virtually withdrew their contention as to their inability to pay the wage increases requested.

Professor Dixon has left so little ground for controversy in his presentation of the subject that there are not many of his statements to which I would take exception. Of course, it is realized that there is plenty of ground for a difference in point of view.

Professor Dixon says that standardization means a minimum rage. Any condition means that. Under any scheme or plan whatever there will be a minimum wage. The difference is that under the present system of labor union standardization there

can not be a decrease in the minimum. Under other methods a decrease in this minimum would be possible.

Professor Dixon says that standardization results in unfair discrimination between employees. Let us grant it. But any other possible method would result in still greater unfair discriminations between employers. The advantage of standardization over any other method is that it results in less unfair discrimination—it provides a broad basis from which all employees within the group are to start.

Professor Dixon says that standardization disregards the individual in favor of the organization. True. And necessarily so, Society itself does this; every form of social or economic organization that we have does this. It is, to my mind, not something that is to be criticised or condemned as much as it is to be commended.

Professor Dixon states that "the railways have been the party which has generally appealed to the mediators." Why? Did you ever hear of a railroad company itself starting a movement to increase the wages of its train employees? Do you know of a single railroad company whose president and board of directors makes it a practice to increase the wages of their train employees? Do you know, as a matter of fact, that it is only the organized railway employees that secure increases in wages? It is from these employees that the movement for increased wages starts, and if it were left to the ruthless working out of heartless economic laws these organized train employees would more than likely secure higher wages than those that have been granted to them by federal boards of arbitration.

Now as to strikes. Professor Dixon states that "absence of strikes is not the sole index of the success of wage regulating legislation." Perhaps not. But it is a very important, perhaps the most important, index of its success. As long as it is impossible for employers to see the wage problem as the employees see it; as long as it is impossible for the employees to view the wage problem from the concrete and personal point of view of the employers, just so long, from the point of view of society, is any method of settling wage controversies that prevents strikes, with their usually accompanying lawlessness, and their disregard of social peace and economic stability, a success. Interpreting the meaning of success in its true sense as being economic justice, I

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am rash enough to venture the assertion that no possible human method of wage regulation can be a success.

Now as to the awards in the public regulation of railway wages being compromises. If granting the demands of the employees, or on the other hand refusing to grant the demands of the employees, is to be understood as not being a compromise, then I should say that a compromise decision is probably the sole index we have of the success of wage regulation legislation. I have yet to engage in a wage controversy where the employees did not believe their demands should be granted and where the employers did not believe the demands should be refused. If there is any large body of men in the United States today selling their labor for wages that are working under perfectly ideal conditions—that is, for the highest possible wages and the best possible conditions of employment—if this is so it is a momentous fact that has escaped my attention.

I shall not take up any time in criticism of the federal boards of arbitration and mediation that have been called into public service to settle railway wage controversies. This is not saying that there is no ground for such criticism. There is plenty of it. None of these federal boards has been perfect, either in the selection of their personnel or in the operation of their hastily constructed machinery. But I believe they have met the critical situation each was called upon to meet in the best way it could have been met under prevailing conditions. It is these existing conditions that we must constantly keep in mind in our review of the work of these boards.

When we compare the present system to the ideal we have in mind, we come to one conclusion. When we view it in the light of the best possible to be obtained, we are more satisfied with it. And when we compare it with the operation of the machinery that it has superseded, we are even more satisfied. This is not saying, of course, that there can not be an improvement in our present system of the public regulation of railway wages.

H. B. Woolston: Everyone must deplore the appalling social cost of low-paid labor. Society does pay in alms and stripes and stunted lives the wage it refuses to unskilled workers. The broken servant of industry appeals to us all. Yet as economists we must consider not only the needs of the workers but also the resources of their employers.

It is truism to say that a manager pays not for effort but for efficiency, not for sacrifice but for output. In most lines wages do increase with the value of the product. Whether or not each worker receives the full value of his labor, is a more difficult question to answer, especially in low-skilled trades, where few standards exist. Every investigator finds men and women in one factory receiving half the rates quoted next door for similar work.

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But output depends not only upon labor. Equipment and management also determine the product. We should expect to find the value of the output increasing with the amount of capital invested, and this is generally the case. Machines are cheaper than human labor in the long run. But where labor can be had for the asking and flung out of doors when it ceases to earn profits for wasteful management, why should a shrewd enterpriser pay for machines?

The investment of capital also affects wages. Skilled men are required to run an expensive plant at top speed, and such men demand fair pay. Women and children can, however, tend simple automatic machinery, although they cannot be trusted to adjust and repair it. The textile and clothing trades are examples of such low-paid lines where female and minor help predominates. New workers can readily be recruited from grammar schools, tenement homes, and Italian vineyards. Wages are thus depressed to the level set by the neediest, the most ignorant, and the least efficient.

As more capital is put into a growing plant and its equipment, the proportionate amount expended for labor is reduced. The output is increased by mechanical devices while the percentage of cost for wages falls. In manufacturing lines the labor cost does not ordinarily exceed 20 per cent of all expenses. Consequently a 10 per cent rise in wages would add only 2 per cent to the cost of the product. It has been calculated that in order to raise the wages of over 2000 young women in New York candy factories from an average of \$5.75 to a minimum of \$8 a week, the confectioners might charge 18 cents more a hundred pounds for their bonbons and cover the difference. In other words, by raising the price of candy less than two mills a pound the weekly pay of three quarters of the women could be raised nearly 40 per cent. In like manner to increase the wages of 4000 girls in the department stores from an average weekly rate of \$4.62 to a

minimum of \$6 and of 13,000 women from an average of \$6.62 to a minimum rate of \$9, shoppers might have to pay \$1 instead of 99 cents for a shirt. Here is the whole secret of raising wages by distributing the cost.

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It is unnecessary to argue for the economy of high wages. Congressional inquiries and efficiency experts have proven beyond doubt that the well-paid American artizan turns out more shoes and lays more bricks per hour than his low-paid European or Asiatic competitor. This means a saving of time and materials and so an absolutely lower labor cost per unit of product. The same principle holds between different lines of work and between different establishment in the same line. The better stores and factories almost invariably pay a rate above the general level of the trade, to secure more efficient workers. Representative firms with high-paid help are always competing more or less successfully against sweatshop, prison, and coolie labor. Since low wages have proven uneconomical, why should we not confirm high standards of management and of workmanship?

It may be said that wages are based upon efficiency, but that high wages will not necessarily secure efficiency. We are told that low-paid workers are getting just about what they are worth and any attempt to increase their pay will simply be pouring water on sand. Let us see what an ordinary factory girl does to earn \$6 a week. A plain workshirt such as porters wear re-The material in it costs the manufacturer tails for 50 cents. about 20 cents and the labor less than 5 cents. But the work of sewing such a garment is subdivided into twenty special operations, which are paid for at rates varying from 1 cent to 5 cents per dozen shirts. To set collars on 2400 garments at 2 cents a dozen means completing 45 an hour for 54 hours. To paste the paper on 6000 boxes at 10 cents a hundred within the same time. a stripper must turn out two a minute. To coat 600 pounds of candy with chocolate at 1 cent a pound, a hand dipper must finish a piece in every seven seconds. An ordinary saleswoman will dispose of \$200 to \$300 worth of goods in a busy week, and thus help to turn over the entire stock of a department store five or six times within a year. These are not exceptional examples of earning capacity. They merely serve to show that it is the supply of workers rather than the productivity of their services that determines ordinary rates of wages.

Nor can it be said that the youth and inexperience of most of the employees accounts for the general low level of pay in these lines. It was found in New York that the majority of women in any five-year age group do not exceed the rate of \$8 a week until they are over thirty. Most men attain \$15 a week after thirty-five. But a person may be old in years and young in trade experience. Basing the wage groups then upon length of service in the business, it was found that most women in comparatively skilled occupations in stores and factories do not attain \$10 even after thirty years experience in the trade. Before this comparatively mature age is reached, most employees have dropped out, and after thirty-five or forty a general falling off in wages is apparent.

Promotion in such lines is slow and uncertain. There is no well marked course of advancement. A young woman learns the knack of doing something in a few months and then sticks at \$6 or \$7, unless she can increase her speed or the amount of her sales. Why should she cleave to the firm? Her chance of rising to be forewoman or head of stock is about one in two hundred.

There are two ways of securing more work from a horse. One is to beat and starve the animal. The other is to treat it well, to feed and shelter it in order that its strength may be increased, its temper improved and its life prolonged. It is said that the prospect of security and comfort is an incentive to good service. There appears to be room for the application of this policy in the case of low-skilled labor.

Aside from the ability of the worker to make a good bargain for his services there are three principal methods of effecting a rise in wages. The first is through the sagacity of the employer. Most progressive business men realize that cheap labor is expensive. They strive by various efficiency systems, welfare schemes, bonus and profit sharing plans to enlarge earning capacity and to enlist the interest and cooperation of their employees.

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The second method to insure increased wages is by organization among the workers. Where the supply of labor is limited or where it is intelligent and homogeneous it can be welded together to enforce its collective demands. But where, as in many low-paid lines, the working force is composed largely of girls and foreigners, inexperience, pressure of want, and fear of disapproval prevent their uniting. It is this situation that balks the efforts

of the trade unions and throws crowds of unskilled workers into the hands of radical industrial leaders.

The third method of adjusting wages is that described by Mrs. Evans in her account of the Massachusetts Minimum Wage Commission. Although the plan is new in this country, nine states have already adopted it. In England and Australia wage boards have been extended on the basis of several years of experience. Many objections have been raised to this method of state regulation, but most of them are purely theoretical and can be answered from the facts now at hand.

A criticism of the policy of fixing any standard rate was indicated by Professor Dixon's remark that the minimum is apt to become the maximum. The better employees are thus thought to be sacrificed to help those less able. Of course this would not be the case for piece rates where relative efficiency would show in output. Neither would it apply to railway employees whose pay is based upon miles or hours of run and kind of service. Even in the case of salaries fixed by the state roads of Europe I do not find that the range from minimum to maximum allowed to the highest class of employees is less than that established for the lower grades, but rather the contrary seems to be the case.

However, a standard rate for each kind of service is different from the minimum for health and comfort required by law for women and children. The latter is a necessary first charge on industry. It is merely a human replacement fund, a retaining fee for labor. If there be any superior efficiency required in more responsible positions, how can employees be prevented from discovering their greater earning capacity and demanding more for it? Certainly the minimum rates fixed by commissions in this country are well above the ordinary weekly wages formerly received by two thirds of the low-paid women. It must be remembered, also, that from the amounts saved by dismissing the most incompetent help enough can be set aside to raise the remainder to the minimum level. Even in Victoria, where the rates fixed are more like our normal wages based upon the usage of representative firms,-even there, Chief Inspector Murphy informs me, the average wage in a trade is invariably higher than the minimum. A brief study of his last report confirms his statement upon this point.

Professor Dixon remarked toward the close of his paper that

what we most need for the proper adjustment of wages is impartial, scientific study of the facts, rather than a compromise effected by interested and uninformed parties. With this point I am sure that most of us are in hearty agreement. But the question of enforcement still remains.

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In former days when men had a dispute or one injured another they fought it out with fists or swords, and the stronger man won. Later they would agree to settle the matter on terms recommended by some wise umpire. Finally the state undertook to protect the rights of all persons, and established a system of justice based upon a dispassionate examination of the facts. Now criminal law and practice have advanced thus far. But industry appears still to be in the fighting or, at most, in the compounding stage. It is time to bring these matters before some just tribunal. When the parties will listen to reason and settle out of court, so much the better. But when in the mad struggle women and children are injured, business is destroyed and the public suffers, it is not only within the power of the state, but its plain duty, to secure peace, order, and welfare within its borders.

I. M. Rubinow: There are two distinct economic tendencies which may be designated under the generic term of Public Regulation of Wages and which are treated in the two papers presented

here today.

One is the effort to prevent interruption in the regularity of certain important economic activities by enforcing a public settlement of controversies between capital and labor; the other endeavors to grant at least the necessary minimum return to wage workers in certain industries where the present standard of wages is abnormally low. One is exemplified by the Canadian Disputes Act and the Erdman and Newlands Acts, the other by the Australian minimum wage law and its few and timid imitations in Massachusetts and other states. Only the latter may properly be designated as an act of protective labor legislation. The former aims rather to protect the interest of the consumer or of the public at large.

The constitutional difficulties involved may be the same but the economic problems are vastly different. In one case the fear of a strike and its disturbing influences upon general commercial conditions is the motive, in the other it is the directly opposite—the conviction that the wage-group involved is too weak to obtain

necessary redress through its own economic efforts. One might almost say that, viewing both movements as phases of the labor movement, they are directly opposed to each other. Minimum wage legislation is an effort to marshall the force of legislative enactment for the protection of the working class; with certain reservations it is largely true that compulsory arbitration, or any approach to it, often is due to the desire to nullify the strength of organized labor movement. It is to be regretted that this almost obvious distinction is not always recognized, and the odium attached to one is extended to the other. It is difficult to explain in any other way the stand taken by Mr. Gompers in opposition to minimum wage legislation in his recent testimony before the Industrial Relations Commission and by the American Federation of Labor at its last annual convention at Philadelphia.

There scarcely seems any need of arguing that there is need for minimum wage legislation in many industries and in commercial and clerical pursuits. Even the man on the street knows that for a large number of employees, especially women, the wages fall below the minimum requirements of individual existence, to say nothing of family obligations which often rest upon the worker.

The illustration quoted by Mrs. Evans is not an isolated one. Statistics of weekly wages do not after all tell the entire story. There may be some exaggeration in Professor Scott Nearing's estimate that "Nine tenths of working women are earning less than \$500 a year, and that three quarters are paid less than \$750 annually"; but it is quite certain that the \$10 a week girl whom Professor Patten put forth as a practical ideal a few years ago is still an ideal. The stand of organized labor towards minimum wage legislation would perhaps have been justifiable if there were reasonable hope that organization and economic effort would correct the situation. But the history of wage fluctuations for the last two decades leaves one disheartened.

As I believe to have shown recently, the sum total of the effect of the last two decades upon real wages was a reduction of some 10 per cent. And yet the last two decades were years of frantic efforts of labor to gain some advance. If we are to believe our captains of industry and transportation, they are tottering under the burden of high wages, increased either by the pernicious work

¹See "Recent Trend of Real Wages," American Economic Review, December, 1914.

of labor agitators or the equally harmful work of meddling legislators. But notwithstanding even the efforts at sabotage the working class lost some 10 per cent. This 10 per cent must have gone into somebody's pocket. There does not appear any evidence

that the investing and employing class have suffered.

The rapid increase in the number of employed women makes an improvement by collective economic effort even more difficult. Our army of female labor consists either of young and inexperienced girls, looking to early marriage, or married women and widows so disheartened and broken in spirit by the very necessity of work that almost any wage is acceptable to them. On one hand there is subsidiary support by parents, and on the other spasmodic help by relatives and charitable institutions. Perhaps without exaggerations, all our large employers of female labor are parasitic employers, not even excluding the large insurance companies, one of which I have the honor to be connected with.

Of course there have been successful strikes of women, notably in New York. But I venture to doubt whether a girls' strike was ever won without the moral support of the male wage workers and of public opinion. The successful issue was therefore a result of a social effort, which could have accomplished its purpose much more

effectively through appropriate legislation.

Wage statistics alone may not convince the constitutional lawyer of the propriety of minimum wage legislation. From a constitutional point of view, the argument of necessity alone is not sufficiently convincing. It is therefore the duty of the economist and social student to point out that while minimum wage legislation may be novel in substance it is but a logical sequence of all protective labor and social legislation, and that there are no new social principles involved that have not been admitted in other branches of labor legislation. This is important not only as an argument before courts of last resort, but also to break down the opposition that is found among economists as well as leaders of labor organizations.

The establishment of minimum standards is the object of most labor laws, be they standards of hygiene, of safety, or of the duration of the day. There is absolutely no difference of principle as between limiting the labor day to ten or eight hours, and prohibiting employment of wage workers under a minimum wage. Both limit substantially the degree of exploitation of the wage

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worker by his employer, by restricting the so-called liberty of either.

Not only the legal but the economic arguments used against them are identical, and we may say equally preposterous. The argument that industries must be preserved no matter at what cost is equally vicious in application to either. It well may be that a more drastic action of the Massachusetts Board in relation to the broom industry would have increased the cost of brooms. That is an argument against the present price of brooms and not against the right of Massachusetts women and girls to lead a decent and healthy existence. There remains, of course, the spectre of interstate competition. It is quite wonderful what vitality this spectre displays. There never was a proposal for protective labor legislation that was not confronted by it, whether it was an effort to shorten the workers' day, or to drive out child labor, or to grant accident compensation.

If this were to hamper labor legislation, then we should have in Massachusetts child labor laws of Alabama and the Carolinas, and the New York compensation law would be absolutely impossible.

The fact of the matter is that though the best and worst compensation acts are only separated by the Hudson River, and though interstate competition was repeatedly threatened, I have yet to hear of a single employer who decided to cross the river to escape the burden of the high cost of compensation.

It is time to get rid of all the "community of interest" cant. Labor legislation of the constructive kind is "class legislation" because it is intended for the purpose of protecting the wageworking class against the employing class. And no substantial results will be accomplished until this is frankly recognized. Perhaps then we shall not meet the opposition even from the workers thmselves that we do now. Indirectly and occasionally a measure of labor legislation may also benefit the employer, but indirectly and occasionally only. As a rule constructive labor legislation cuts into profits; often it requires a direct contribution from or tax upon the employer. There never was a substantial labor law that did not met the opposition of the employer arising from these facts.

To overcome this opposition courage is a very essential factor. The Massachusetts idea of the function of the wage board is "to find what can be done, not what is desirable, to discover a middle

ground where diverse interests can be reconciled." It seems to me that this is just the attitude well calculated to discredit the principle of minimum wage legislation. It is not only abstractly desirable but quite concretely imperative that wages be sufficient to pay for the minimum living expenses. And when these have been determined to be \$8.71 a week, it is preposterous to agree at 15½ cents an hour, which will not produce the necessary amount except through 56 hours a week. It is further preposterous to disregard in these computations the inevitable loss of time from illness or unemployment.

At the peril of being accused of riding my own particular hobby. I must insist that the principle of a minimum wage cannot be realized unless it carries with it ample provision against all the economic emergencies of the wage workers' existence through a comprehensive system of social insurance against sickness, invalidity, old age, unemployment, and industrial accidents. This appears impossible now. But the limits between the possible and impossible in social legislation are not physical and fixed. They shift readily under the influence of social pressures, resulting either from class consciousness on one side or from a growing social conscience on the other. And given sufficient pressure, things impossible today become possible sometimes over night. In planning for progressive constructive social legislation, some social idealism is necessary. If we are to admit for a moment that in the richest country in the world things socially necessary are also impossible, that modern society finds it impossible to pay a minimum living wage, mainly because the most prosperous employers resist it, then all arguments for constructive social legislation are reduced to nought and the sooner we recognize the futility of practicing social evolution, the better.

The trouble with the Massachusetts minimum wage law is largely that it is not one. If minimum wage legislation means anything at all, it means the duty as well as power of society to prescribe and order (not only advise and urge) conditions of remuneration for wage work. Society's decision to interfere is predicated upon failure of the industry to arrive at a satisfactory conclusion. The time for conferring and compromising has gone by the time the minimum wage law decides to meet the regulation. The administrative machine may call in representatives of the contesting parties for the purpose of obtaining expert information, but

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wage ruling canti adult the representatives of the organized state (and not of that hazy indefinite conglomerate called the public) should have the majority of the deliberative body, and not be weaker than either side; above all its decision should have the binding force of law. It may well be that such legislation is at present unconstitutional. One hesitates to speculate in advance concerning the decision of the Supreme Court, but if it is unconstitutional, so much the worse for the constitution, and also so much the worse for our efforts at orderly and peaceful social progress.

As a matter of fact I do not doubt that a constitutional way will he found as it was in compensation. It seems that every new line of labor legislation goes through the same stages of development. It is initiated by so-called social reformers, as evidence of a growing social conscience. The difficulty with the social reformer is that while his heart is usually in the right place, courage sometimes fails him. He is afraid to suggest more than is reasonable and possible. For example, take the New York Compensation Act of 1910, fortunately declared unconstitutional, or the present New Jersey act. Perhaps he is right, for he meets antagonism even from organized labor, as did the compensation principle. But gradually the workmen learn. And when they do, we get legislation of an entirely different type. So long as a workman must send his immature daughter and sometimes his wife to work to provide for a reasonable standard, he must eventually learn. And lo and behold, minimum wage laws will become economically sound and constitutionally possible. Even under the seemingly ironclad and rigid limitations of our numerous constitutions, it is still true, that in social legislation, where there is the will, there is the way. I sometimes fear that the final success of our labor legislation depends upon the agitator no less than upon the economist and statistician.

THERESA S. McMahon: After society has accepted minimum wage legislation as desirable, because necessary to maintain American standards of living, it is still confronted with the problem of its enforcement.

Several states have adopted minimum wage laws, and established wages for women and minors in various industries. The first rulings in the state of Washington applied to workers in mercantile establishments, and fixed the minimum wage to be paid adult female workers over the age of eighteen years, other than

apprentices, at \$10 per week. The minimum wage for female workers under the age of eighteen years was fixed at \$6 per week. Apprentices are allowed to the number of 17 per cent of the total number of the adult workers employed. The minimum wage of these apprentices was fixed at \$6 per week for the first six months, and \$7.50 per week for the second six months employed. The rulings of the other states do not differ fundamentally from the rulings made by the state of Washington.

Industrial history suggests that if rulings continue to be made along similar lines established by the pioneer states in the movement minimum wage legislation will fail in its purpose and the interested public, as a result, will lose faith in this method of

bettering conditions of living of underpaid workers.

The large army of underpaid workers is in part a product of widening markets and machine industry. Hand in hand with these has come an efficiency in business management which has reduced labor cost in terms of human energy and skill to a remarkable degree. This reduced cost has been brought about by the scientific management of labor, and the substitution of machinery for labor whenever profitable. The extensive use of machinery, when it did not replace workmen, created new lines of work often within the reach of the unskilled, untrained, and young. The history of industrial evolution constantly presents to us the bitter protest of the skilled worker deprived of his means of livelihood and brought face to face with the new economic situation of either joining the ranks of the unskilled or carving out a new trade not yet claimed by machine industry. The ranks of the unskilled are further supplemented by the increased application of minute division of labor. The larger the industrial establishment the more profitable to segregate all unskilled tasks from the semi-skilled and skilled, and to create specific tasks open to the competition of the cheapest grade of workers. The increasing stream of unskilled workers is fed from another source-that of immigration. All these workers-men. women, and children-are struggling to get their feet on the lower rung of the industrial ladder.

The increasing use of machinery, coupled with minute division of labor, and a competing horde of immigrants with their lower standards of living are potent influences in breaking down the bargaining power of the unskilled workers. In fact, the industries which can draw upon the most congested labor market for the bulk labor demai imum gain s

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bulk of their labor supply can operate on a comparatively low labor cost. The recognition of this fact is responsible for the demand on the part of the public for the legal regulation of minimum wages on behalf of the unskilled workers too weak to bargain successfully for a living wage.

If this is true, will not the acknowledgement of one year's apprenticeship, as the commissions of the various states are ruling in these competitive fields, subvert the efficiency of minimum wage laws? Where an apprenticeship of even six months is allowed in unskilled industries, and there exists no labor organization to enforce seniority rights, will not the workwomen who have served an apprenticeship be discharged and their places be taken by those who have no registered apprenticeship period back of them? Will not the old abuse of the apprenticeship system, so common in the last century, be reëstablished and serve but one purpose, that of securing cheap labor?

The breakdown of the old apprenticeship laws of England had its origin in their abuse. Employers, under the guise of apprenticeship, secured cheap contract labor, while the apprentice received nothing in the way of training to compensate him for his low wage.

It is questionable whether the skilled trades in which an apprenticeship of one year must necessarily be served before the task in question can be efficiently performed is in immediate need for minimum wage legislation. Workers in these trades, by virtue of their skill, look forward to the regulation of their wages through labor unions rather than state aid. It is the living standard of the unskilled women workers, too weak to bargain for themselves, minimum wage commissions are called upon to maintain. If they fail, by not adequately guarding against loopholes which make possible the evasion of the spirit of the laws, will they not discredit the whole movement and antagonize the workers themselves whose faith in legal action seems somewhat shaken?

It is true minimum wage commissions have made rulings which limit the number of apprentices which can be employed by one frm. In Washington apprentices cannot number more than 17 per cent of the adult workers employed. This might suggest the conclusion that at least a large number of the girls will receive the wages set by the commissions as necessary to maintain American standards of living. But does this really follow?

Closely linked to this abuse of the apprenticeship system which

bound the apprentice to his employer for a period of years was the abuse of child labor. Aside from its social significance—the effect of child labor on future good citizenship—its disastrous effect upon adult labor with which it came into direct competition was not overlooked. Indeed, it has been one of the most forceful arguments produced in behalf of child labor laws.

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When the minimum wage for adults is placed four dollars higher for girls over eighteen years of age than for boys and girls under eighteen years of age, as was done in the mercantile establishments of Washington, a decided premium is placed on the labor of minors. Such a ruling must necessarily be accompanied by legislation cutting down the legal number of hours a minor can work below the number set for adult female workers, or obliging the employers to send minors to continuation schools on the employer's time. One other way to meet this problem is to fix the same legal minimum wage for minors as for adults when the two classes of workers come into direct competition.

It must be admitted that there is much work in industry which can be performed by girls under eighteen years of age as well as by mature women, and when the law fixes the minimum wage for minors appreciably less than the legal minimum to be paid adult workers the latter are at a distinct disadvantage when offering their labor for sale.

One of the most pressing social problems of the day is how to eliminate child labor from industry as a means of protecting future citizens from the exploitation of industry, and, secondly, how to prevent the children in industry from competing with their elders. In many instances a child can be driven more effectively than an adult, and would prove a greater financial asset to his employer if employed at the same wage. But where the child has no advantage over the adult in speed, and has certain marked disadvantages in efficiency, its employment depends solely on its willingness to accept a small wage, inadequate for its support. When boys and girls compete on a low scale with adults, and when the adults' wage is raised by law several dollars higher than the old competitive wage, the working woman is apt to be worse off than before the minimum wage law went into effect. Thus is added a further inducement to continue the process of segregating the unskilled jobs from the skilled, and to employ young girls rather than women who are more likely to be thrown wholly on their own resources.

There is no way of determining what percentage of the labor supply offered in the labor market is made up of young women, but it is reasonable to suppose that the number of girls between the ages of sixteen and eighteen years offering their services to industry would be considerably higher than at a later age period, when marriage has depleted their numbers. The competition of these girls in the factory and department stores has proven in the past a menace to wage-earning women who are necessarily self-supporting.

When we face these two problems squarely, namely, apprenticeship in the unskilled trades, and the labor of minors in these trades, is there any justification for the accusation of the Seattle working girl who complained in the columns of a Seattle daily paper, "You social workers are making things worse for us girls," and cited as an example minimum wage legislation. She had lost her job because she had a year's experience back of her.

Students of labor problems have repeatedly told us that one reason the wages of women are so low is that they crowd in the unskilled trades because of their unwillingness to serve a year or two apprenticeship in the better-wage-paying industries. They compete with each other within a narrow circle of industries adapted to their natural skill. Their unwillingness to serve an apprenticeship is based on the fact that they expect to marry and to leave the industrial field within a few years.

If we are willing to concede this point—we can find evidence on all sides—why not meet the issue squarely, and fix a minimum wage for this class of workers for whom minimum wage laws have been asked?

If the minimum wage commission, charged with the duty of fixing legal minimum living wages, are convinced that they cannot do so without driving industries from their respective communities, and if they are unwilling to assume the responsibility for doing so, would it not be better frankly to say so rather than to enact rulings which will fail in the purpose for which they were originally intended? Any other course may impose unjustifiable hardships upon the weakest workers in society. The value of experience in minimum wage legislation bought at such a price is open to question.

W. L. WHITTLESEY: These minimum wage investigations bring out a broad fact which most of us prefer to ignore: that all civilized

societies, so far, have stood on some subject class, have founded their industry and prosperity upon the basis of an inferior order of workers. The Greeks elevated this system into a philosophy and had a good deal to say about the slave as a living tool in the hand of the master. It is less than eighty years since books were written in our country, and that by sincere and learned men, to justify this method of getting the necessary work done. It has always been thus, but when we are confronted by the results we want the system changed, we want to get such a situation that one can live in a community and buy its goods and preserve one's self respect. This is not a matter of taking property away from one set of men and giving it to others. What we want is to use the power of the state, cautiously, definitely, and as slowly as conditions require, to fix, as Professor Willoughby has said in his book Social Justice. the plane upon which competition must proceed. The idea is to put a bottom into industry which will prevent anyone from making profits out of the ignorance and necessity of his workers, to make it impossible for anyone to draw off any part of the labor of a community into employments which do not maintain themselves. This is, of course, a broad principle and nothing else. It does not do away with the need of accident, death, and sickness benefits; it does not supplant old-age pensions or unemployment insurance. To reach the goal will require the most careful planning and the most intelligent administration for years to come, but-and much more important—the desirability of attaining this end is in no way impeded by the reluctance of backward employers or by the immediate difficulties of making broad trade adjustments in unprosperous times. The minimum wage project aims at a permanent betterment of working conditions. Its feasibility rests upon two great facts: first, that only one fourth or one fifth of the labor of a modern community is required to feed it (we are not tied to the soil); and, second, that this change ought to have the most valuable reaction upon our productive power. No one need be starved or kept poor in order to keep our world going. There ought to be the most fundamental advertising value in a readjustment, such that consumers will be able to know that the things they use are made under the right conditions. Who wants to impose on half-fed women and children in order to get socks at two cents less per pair? The conditions these investigations reveal must be done away with. Finally, these under-wage people are a

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dead weight, a living wet blanket on the development of the community. I work for a public service corporation which has over \$700,000,000 invested in this country, yet there was not a single telephone call in that girl's budget as Mrs. Evans gave it. For her the Bell system does not exist. In these mill towns with the hordes of cheap labor we have two to four telephones per hundred of population, in American cities of the same size we have twenty or more per hundred. This is only one note from one line. What can you sell people who are living right up against it? They mean nothing to progressive business. In the long run there is no curse of a community like the curse of cheap people and it is time we began to plan to get rid of it.

SCOTT NEARING: A great deal has been said regarding the necessity of charging up the cost of minimum-wage legislation to the consumer and to the worker. Is it not time that some effort was made to charge up these costs where at least a considerable portion of them belong,—to the interest and dividend funds of the community? It is easy to assume that the costs of progress should be charged where they have always been charged. It is high time that we refine our code of economic thinking, and begin to lay burdens on the shoulders most able to bear them.

N. I. STONE: I believe the opposition of the American Federation of Labor to minimum wage legislation is due largely to a failure to distinguish between a legal minimum wage which is meant to be merely a subsistence wage and a union minimum wage which is usually a standard wage aiming to provide more than a minimum necessary for existence. The legal minimum wage is applied in the sweated trades in England, and in the few states in this country in which it has been recently enacted aims to secure a subsistence wage for those who are earning less than the minimum amount necessary to support life. In other words, it comes to the aid of those whom the union apparently has so far been unable to organize or, having organized, has been unable to gain for them a living wage. does not interfere in the least with the union attempting to secure more than a minimum for those of the workers who, through higher skill or through ability to force concessions from the employers, can secure better terms.

Bearing this distinction in mind, I can not agree with the remark in Dr. Rubinow's excellent paper that women workers have

not been able to accomplish as much through strikes as minimum wage legislation can accomplish for them. In the Dress and Waist industry, for example, the wages of which I have recently investigated and in which 84 per cent of the workers are women, mostly girls, wages of week workers under the protocol run all the way from \$8 to \$14 per week, according to occupation and the skill required. These are the minimum union rates, and a considerable proportion of the women are earning still higher rates of wages. It is manifest that no wage board under a minimum wage law would award such rates of wages at this time. The same is true of women workers in other organized trades. However, in unorganized trades, like candy making, paper box making, etc., we know from Dr. Woolston's report, as well as from reports relating to other states than New York, that wages of women are far below the minimum necessary to support life.

Dr. MacMahon's experience, sad as it is, does not shake my faith in the possibilities of minimum wage legislation. The trouble with her state was that the law failed to provide adequate safeguards against possible abuse. The time limit placed upon the period of apprenticeship was all right as far as it went, but should have been supplemented by a limitation upon the percentage which the number of apprentices in any establishment may bear to the total number of employees working therein. As the minimum wage is to be applied, as a rule, in trades in which no skill or but little of it is required, the proportion of apprentices could be fixed at a low figure, certainly not more than 10 per cent and possibly less, depending on the character of the trade. For the same reason a year seems to be too long a period to allow for apprenticeship, especially for adult persons. I know of trades in which three months would be more than an ample allowance. With the law strengthened in these two directions, I believe the state of Washington can still retrieve the minimum wage situation.

As for the fear of competition from states having no minimum wage laws, to which Mrs. Evans has referred, I regret that time will not permit to cite concrete instances from many industries showing the small part that wages play in the total cost of production. (Those interested in this aspect of the case are referred to my paper in the forthcoming report of the New York State Factory Investigating Commission on the minimum wage.) I shall merely draw attention to the fact that higher wages usually spell higher efficiency, especially in the case of girls compelled to

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I ha wages that n minimu aims to have a who ce not inactuall actual work at starvation wages, which inevitably make for greater inefficiency. In this connection it is well to bear in mind the figures Dr. Woolston cited in his paper this morning, showing what little, almost imperceptible, effect a large increase of wages would have upon cost of production or prices.

I have no quarrel with Dr. Nearing's suggestion of increasing wages at the expense of excessive profits, but I am convinced that no such calamity threatens the recipients of profits from minimum wage legislation for women and children, which only aims to raise them to a subsistence minimum, for the reasons I have already cited that the increase in efficiency of the worker who ceases to starve is bound to be so great that not only will it not increase the cost of production, but in most cases it will actually reduce it. Again I speak not from theory, but from actual experience.

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DECEMBER 29 to 31, 1914

Pursuant to the announcement in the program of the Annual Meeting the Executive Committee met in Room 46, McCosh Hall, at 9 A. M., Tuesday, December 29. There were present President Gray and Messrs. Babson, Carver, Fetter, McCrea, Seligman, Willcox, and Young.

As the minutes of the previous meeting had been mailed to the members of the Committee, their reading was dispensed with.

The Secretary reported that although the power to appoint an auditing committee lay with the Executive Committee it had been necessary for the President to ask three members of the Association to audit the books of the Treasurer in advance of the Annual Meeting. By vote of the Executive Committee the members so designated, Messrs. Donald English, R. G. Blakey, and A. P. Usher, were constituted the Auditing Committee.

The Secretary also reported that with the approval of the individual members of the Committee, obtained by correspondence, President Gray had appointed Mr. W. S. Gifford as representative of the Association on the Joint Committee on Standards for Graphic Presentation. This appointment was made at the invitation of the American Society of Mechanical Engineers, and representatives on the Committee had already been appointed by the Actuarial Society of America, the American Academy of Political and Social Science, the American Institute of Electrical Engineers, the American Institute of Mining Engineers, the American Association of Public Accountants, the American Society of Mechanical Engineers, the American Statistical Association, and the United States Census Bureau. By vote of the Committee the appointment was approved.

It was voted to empower the Secretary at his discretion to permit matter which has appeared in the publications of the Association to be reprinted elsewhere. It was provided, however, that permissions to reprint from the AMERICAN ECONOMIC REVIEW must also have the approval of the Managing Editor. By vote of the Committee the authors of two papers on the program of the current meeting were given permission to publish their papers in advance of the publication of the Proceedings of the meeting.

A business meeting of the Association was held in Room 46, McCosh Hall, at 9.45 A. M., Tuesday, December 29, President Gray presiding.

The reading of the minutes of the previous annual meeting was omitted, as these had already been published in the Proceedings of that meeting.

The President announced the appointment of the following committees:

On nominations: Messrs. E. R. A. Seligman, R. T. Ely, J. W. Jenks, H. W. Farnam, F. A. Fetter, and D. Kinley.

On resolutions: Messrs. G. A. Warfield, C. W. Wright, and J. H. Hollander.

The reports of the Secretary, of the Treasurer, and of the Auditing Committee were read and each was, by vote, approved.

Professor E. R. A. Seligman presented a preliminary report from the Joint Committee on Academic Freedom and Academic Tenure¹ (see Proceedings of the Twenty-sixth Annual Meeting, pp. 196, 199). It was voted that the report be received and that the committee of three representing the American Economic Association be continued.

The Executive Committee met at 9.30 A.M., Wednesday, December 30, in Room 46, McCosh Hall. There were present President Gray, and Messrs. Babson, Carver, Dewey, Farnam, Fetter, Hammond, Kinley, McCrea, Willcox, and Young.

It was voted to reconsider the action taken by the Committee on May 11, 1914, by which it was decided to hold the annual meeting for 1915 in San Francisco during the first week in September. It was reported by the Secretary that an earlier date was preferred by the representatives of our members on the Pacific Coast. It was voted that a meeting be held at San Francisco in the second week of August. It was also voted to recommend to the Association that two meetings be held in 1915: one in San Francisco at the date mentioned, and one at some other point, possibly in the Middle West, in the last week in December.

A business meeting of the Association was held in Room 46, McCosh Hall, on Thursday morning, December 31, at 9 o'clock, with President Gray in the chair.

The Secretary read the following resolution, which, upon motion

¹The report is printed below, p. 316.

of Professor W. F. Willcox, had been adopted at the joint session of the American Economic Association and the American Statistical Association on Wednesday morning, December 30:

Resolved, That the American Economic Association and the American Statistical Association here meeting in joint session are requested to consider the expediency of appointing cooperating committees on the relation of these Associations to the statistical work of the federal government.

Professor W. F. Willcox then presented the following resolution:

Resolved, That the Executive Committee be authorized to appoint a committee of five upon Federal Work in Statistics, with power to add to its membership and to cooperate with a similar committee of the American Statistical Association.

By vote of the Association the resolution was adopted.

The Secretary then read the following resolution, which had been introduced by Mr. M. M. Dawson at the joint session of the American Economic Association and the American Statistical Association, and which had by vote of those present at that session been referred to the respective Associations for action:

Whereas, by Resolution No. 68, called for by resolutions of the American Statistical Association, the American Association for Labor Legislation, the American Federation of Labor, the Actuarial Society of America, and other civic and labor associations, the Senate of the United States has called upon the Commissioner of Labor Statistics for a report on mortality and disability among persons in different occupations; and

Whereas, the Commissioner of Labor Statistics has expressed his willingness to perform this work and has asked for an appropriation of \$25,000 to enable him to do so, which request is now before Congress,

Be It Resolved, That the American Economic Association and the American Statistical Association, in joint session at Princeton, N. J., respectfully urge upon Congress the pressing need at this time for such statistics and the wisdom of providing the funds required to enable the Commissioner of Labor Statistics to collect, analyze, and report all statistics relating to such mortality and disability as may be at his command.

By vote of the Association this resolution was referred to the Executive Committee with power to act upon it or to refer it to the new Committee on Federal Work in Statistics.

The recommendation of the Executive Committee that two meetings of the Association be held in 1915, one in San Francisco in the second week of August and one at some other point in the last week of December, was then presented to the Association. It was voted to approve the recommendation of the Committee, with the understanding that the Committee should still feel itself free to take further action in regard to both places and dates.

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Professor F. A. Fetter reported for the committee appointed by the Executive Committee to consider various problems connected with the offices of Secretary and Treasurer (see Proceedings of Twenty-sixth Annual Meeting, pp. 197, 200) that it recommended that no change be made in the present arrangements for conducting the work of these offices. By vote the report was received.

Professor E. R. A. Seligman presented the report of the committee on nominations, which made the following nominations: For President, Walter F. Willcox; for Vice-Presidents, T. N. Carver, Balthasar H. Meyer, Jacob H. Hollander; for Secretary-Treasurer, Allyn A. Young; for Editor of the American Economic Review, Davis R. Dewey; for members of the Executive Committee, Roger W. Babson and Wesley C. Mitchell; for members of the Editorial Board, Herbert E. Mills (to take the place of J. H. Hollander resigned), Clive Day, and Herbert J. Davenport.

It was unanimously voted to accept this report and to authorize the Secretary to cast the vote of the members present for the list of officers named. The vote was so cast and officers named were elected.

The committee on resolutions presented the following report, which was adopted by unanimous vote.

The American Economic Association expresses sincere appreciation of the hospitality extended to us by Princeton University, and particularly of the careful arrangements and untiring efforts of the special Committee on Local Arrangements.

Be it therefore Resolved: That the Secretary be requested to make in the minutes formal record of these sentiments; and to transmit copies of these resolutions especially to the Committee on Local Arrangements, to President and Mrs. Hibben, to Professor and Mrs. George B. McClellan, to Dean and Mrs. Magie, to the members of the Nassau Club, and to all who have contributed to the success of the Twenty-seventh Annual Meeting.

G. A. WARFIELD

C. W. WRIGHT

J. H. HOLLANDER

Committee on Resolutions.

The matter of the proper preparation of the national budget having been brought up for consideration, it was voted to empower the Executive Committee to take action, or, at its discretion, to refer the matter to the Committee on Federal Work in Statistics.

The Executive Committee met at 10 A.M., Thursday, December

31, in Room 46, McCosh Hall. There were present Messrs. Dewey, Fetter, Farnam, Gray, Hammond, Kinley, Willcox, and Young.

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Professor E. D. Durand presented the following resolution as a report from the sub-committee upon the matter of university credits for work done by graduate students in connection with public commissions, efficiency bureaus, etc. (see Proceedings Twenty-seventh Annual Meeting, p. 200):

Resolved, That it is the sense of this Association that universities may properly, under conditions to be prescribed by each, grant reasonable credit, not exceeding the credit granted for one year of university residence, toward advanced degrees, for research work along economic and statistical lines done by previously matriculated students as employees in or under direction of governmental departments or private organizations or associations.

It was voted that the report be received and the committee discharged, but that the discussion of the report be deferred.

REPORT OF THE SECRETARY FOR THE YEAR ENDING DECEMBER 17, 1914

A meeting of the Executive Committee was held at the City Club, New York, on May 11, 1914. The President's appointment of Professor L. C. Marshall as a member of the sub-committee which is to report upon the accrediting by universities of work done by graduate students in connection with bureaus of municipal research, public commissions, etc., in place of Professor H. R. Seager, resigned, was approved. (The other members of the sub-committee are Professors J. R. Commons and E. D. Durand, the latter being chairman.)

The Secretary reported that in accordance with action taken at the Minneapolis meeting a letter drafted by Professor E. D. Durand and signed by the President and Secretary had been sent to the President of the United States urging the necessity of a proper representation of the United States at government expense at important international congresses and other international meetings of delegates relating to economic, sociological, political, and statistical subjects. A reply was received from the Counselor of the Department of State, to which the matter had been referred by the President, suggesting that the Association should take the initiative in securing the necessary legislation from Congress.

The Secretary, at his request, was empowered to enlarge the scope of the Handbook of the Association.

The most important action taken by the Committee at this meeting was a decision that the annual meeting of the Association for 1915 be held in San Francisco. The first week in September was selected as the date of the meeting. It was supposed at the time that this date was preferred by our members on the Pacific Coast. But changes in the general schedule for the various scientific gatherings to be held in San Francisco in connection with the Exposition, together with some other new factors, have led some of our members on the Coast to ask that the meeting be held somewhat earlier in the summer. This matter has been the subject of much correspondence with the members of the Executive Committee, but as only the one meeting of the Committee was held during the year a final decision has had to be postponed to the present meeting.

The changes in our list of members and subscribers during the year ending December 17, 1914, have been as follows:

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I.	ending December 11, 1914, have been as follows:		
	Members resigned		
	Removed for lack of address		
	Dropped for non-payment of dues 79		
	Subscriptions discontinued		
	Deaths		
	Total subtractions	338	
	New members added		
	New subscribers added		
	Total additions	294	
	Net Loss	4.4	
	Net Loss	Gede	

We now have 2469 members and subscribers. Of these 2060 are members paying annually; 81 are life members; 8 are honorary memors; and 320 are subscribers.

The net loss of 44 members and subscribers must in part be taken as a continuance of the effects of the increase in our annual dues from three dollars to five, which showed itself in a net loss of 202 members and subscribers during the preceding year,—the first year to which the increased dues applied. The diminished rate of loss is, of course, a matter for some satisfaction, and indicates that it should be possible to hold our membership at about its present figure. If this can be done, it will provide adequately for our activities on their present scale. But we cannot count on increasing either the scale or the scope of our activities without an increase in our membership. This cannot be done with any expectation of lasting results without the continued coöperation of our members. The following table bears upon this point:

beginn	rship at ling of ear	Resigned or dropped	Added	Per cent loss	Per cen gain
1910 1911	1360 1702	52 112	401 814	4.5 6.6	29.5 47.8
1912	2404	229	540	9.5	32.5
1913	2715	473	271	17.4	10.0
1914	2513	337	294	13.4	11.7

During 1910, 1911, and 1912 our membership was doubled. largely through the efficient work of the officers, assisted in some measure by a special membership committee. In 1911, the first year of the American Economic Review, a particularly large advance was made. But there was also an increasing number of withdrawals. And although these withdrawals reached a maximum in 1913. not all of them can be attributed to the advance in dues which took effect in that year. Withdrawals have been most numerous when our membership has been largest, and, moreover, withdrawals have annually taken away a larger or smaller proportion of our membership according as that membership has been relatively large or small.

It is clear that some considerable proportion of the new members added in the past five years have found that they were not sufficiently interested in the work or in the publications of the Association to continue to pay our annual dues. It is to be hoped that our rolls are now fairly well pruned in this respect. May not the loss be made up by the enrollment of new members who will be definitely interested in the furtherance of that unprejudiced and scientific study of economic problems for which we stand? For this permanent sort of increase in our membership we must depend largely upon the cooperation of those now on our rolls.

The Proceedings of the Annual Meeting and the Handbook of the Association were, as usual, put through the press from the Secretary's office. The Handbook for 1914 contains one new feature—a geographical index of members and subscribers which, it is hoped, will prove useful.

During the year the deaths of seventeen members have been reported to the Secretary, namely:

O. H. BERRY

EUGEN VON BOEHM-BAWERK

R. M. BRECKENRIDGE

H. P. DAVIDSON EDWIN GINN

WILLIAM H. HILL

BERTHOLD HUBER

C. H. HUTTIG

DWIGHT A. JONES

JASPER M. LAWFORD

M. L. MUEHLEMAN

JOHN P. SCRIPPS

WAGER SWAYNE

CLAUDE THOMPSON

GEORGE WESTINGHOUSE

JOHN F. WINSLOW

STUART WOOD

Respectfully submitted,

ALLYN A. YOUNG.

Secretary.

REPORT OF THE TREASURER FOR THE YEAR ENDING DECEMBER 17, 1914

The ordinary statement of receipts and expenditures which follows indicates merely the cash transactions for the year.

Receipts and Expenditures	Jear.	
1914		
Cash on hand December 16, 1913		\$4005.9
Receipts		
Membership Dues Subscriptions	\$9683.79	2
Guarantee Fund	1487.37	
Sales of Publications	769 80	
Interest	261.55	
		- 12228.64
		\$16234.58
Expenditures		
Publications Region Printing		
Review Printing \$3023. Review Editorial \$2687.	62	
Review Expenses and Supplies	25 78	
1011.		
\$7288.	35	
Proceedings and Handbook	34	
Sundry Publication Expense	0015500	
Secretary's Office	- \$8155.90	
Office Salaries\$1586.	99	
Traveling Expenses		
Stationery and Office Printing 280.		
Office Supplies		
Telegraph and Telephone		
Express, Freight and Cartage 60.		
Miscellaneous Expense	17	
Annual Meeting 149.		
Insurance	- 2772.70	
Storage of Publications	66.06 50.00	
	00.00	\$11044.66
United Fruit Company Bonds	\$1904.50	
Ithaca Trust Co	3	
Central Trust Co 3156.		
	- 3285.42	5189.92
		0100.02
		\$16234.58

The income statement which is subjoined gives a more adequate account of the year's changes in the finances of the Association, for it includes among the expenditures a number of accounts remaining unpaid at the date for which this report speaks, and, among the

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receipts, various items of income accrued but not yet realized. A balance sheet showing the present financial condition of the Association appears in the report of the auditing committee.

INCOME STATEMENT

Expenditures		Receipts	
Review Printing\$3023.62 Review Editorial 2812.25		Membership Dues\$10579.07 Less Defaulted 713.75	20000 00
Review Expenses and Supplies	\$7521.34 962.37 252.74 \$8736.45	Subscriptions \$1557.62 Less Defaulted 25.00 Guarantee Fund Sales of Publications Interest	\$9865,32 1532,62 32,20 816,95 219,55
Annual Meeting 189.01	\$2914.90		
Insurance	66.06 50.00		
Surplus for Year	669.23		
8	12466.64		312466.64

In spite of necessary increases both in publication expense and in the expenses of the Secretary's office, a net surplus of \$669.23 has been created by the transactions of the year. With investments of \$3000 and with a large savings bank account, part of which might safely be utilized for further investments, it is evident that the present Treasurer may repeat the observation made by his predecessor a year ago, that the Association is in a thoroughly sound financial condition. From the financial point of view the increase of our membership dues has abundantly justified itself.

There seems to be no reason for presenting a detailed estimate of receipts and expenditures for the coming year. There is no present ground for expecting that receipts will be substantially larger or smaller than during the past year. Our meeting in San Francisco will probably cost us somewhat more than most of our meetings have. This, or other extraordinary expenses, may even

make it necessary to cut slightly into our accumulated surplus, but otherwise the income of the year should suffice to cover all contemplated expenditures.

Special mention must be made of the very efficient and painstaking work of Mr. Donald English as chairman of the auditing committee. The Treasurer is indebted to him for a number of valuable suggestions for improvements in the accounts of the Association.

Respectfully submitted,

ALLYN A. Young,

Treasurer.

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REPORT OF THE AUDITING COMMITTEE

Ithaca, N. Y., December 21, 1914.

To the American Economic Association:

An audit in detail of the accounts of the Secretary-Treasurer of the Association, for the fiscal year ended December 17, 1914, has been made by assistants under the direction of your committee. The accompanying statement of income and outgo, balance sheet, and exhibit of charges and credits to surplus, are in our opinion correct, and we certify that the ledger accounts are in full agreement with the balance sheet here presented.

Very respectfully,

Donald English
Abbott Payson Usher
Roy G. Blakey

Auditing Committee.

BALANCE SHEET

BALANCE	SHEET
Assets	Liabilities
Cash in Bank \$ 128.63 Cash in Savings Account 3156.79 Investments New York City Assessment Bond Ment Bond \$1000 United Fruit Company 4½ 4½ of 1923 2000 3000.00	Accounts Payable
Insurance six months	500,00 Surplus
\$9558.28	\$8558.28
ф0000.20	\$0000.20
Balance December 15, 1913 Defaulted Membership Dues Uncollectible Accounts Receivable Sales Subscriptions Adjustments Accounts Receivable Dues Receivable Less Amount Paid on Membership	\$470.00 \$6634.65 \$4,55 5.00 9.55 \$ 2.87
Dues written off	59.25
Actual Surplus prior to 1914 Net Surplus for the year Discount on Bonds Surplus December 17, 1914	\$6188.73 669.23 140.00

INCOME AND OUTGO			
Ordinary Income			
Dues	\$10579,07		
AASS Detauted	243.75		
Net	10335 30		
Interest	219.55		
		\$10554.87	
Ordinary Outgo		***********	
Office Salaries			
Traveling Expenses Stationery and Printing	133.24		
Postage	280.52 441.42		
Supplies	48.64		
Telephone and Telegraph	61.03		
Storage of Publications	50.00		
Freight and Cartage	60.23		
Insurance	66.06		
Annual Meeting Miscellaneous Expense			
Ansternations Expense	13.82	2020.00	
Surplus of Ordinary Income		3030.96	\$7523.91
Publication Outgo			
Printing	@2022 62		
Editorial	1500.00		
Contributional	1312.25		
Editorial Expenses	1685.47		
Proceedings and Handbook	962.37		
Sundry Publication Expense	252.74		
		\$8736.45	
Publication Income			
Subscriptions	\$1577.62		
Sales	816.95		
	\$2374.57		
Less Uncollectible Items	25.00		
		2349.57	
Cost of Publication above Normal Income		\$6386.88	
Guarantee Fund		32.20	
Cost of Publication above Total Income			6354.68
Gross Surplus for the Year			\$1169.23
Reserve for Defaulted Membership Dues Receivable Reserve for Bad Accounts Receivable	\$450.00		
reserve for oad Accounts Receivable	50.00		500,00
Net Surplus for the Year			\$669,23
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Amount due from members who have been dropped during past year, for publications furnished during the year.

REPORT OF THE MANAGING EDITOR OF THE AMERI-CAN ECONOMIC REVIEW FOR THE YEAR ENDING DECEMBER, 1914

During the past year the following have served as the board of editors: Professor J. H. Hollander, and Professor F. A. Fetter, whose terms expire in 1916; Dr. H. B. Gardner and Dr. J. L. Coulter, whose terms expire in 1915; and Professor Clive Day and Professor H. J. Davenport, whose terms expire with 1914.

The Review has been maintained along the same lines as during previous years and a distinct effort has been made to standardize the distribution of its contents into the different departments—leading articles, reviews, documentary notes, periodical abstracts, and notes. In accordance with the belief that the volume should not exceed 1000 pages, this fourth volume has been reduced to 1030 pages as compared with 1078 of the preceding year.

There have been 20 leading articles. Fifty-one reviewers have been added to the contributing staff, making a total of 277 since the establishment of the REVIEW.

The following changes have been made in the department of periodical abstracts. Dr. Harris has dropped the subject of prices and has taken over insurance and pensions. Dr. Barrett has been obliged temporarily to suspend the preparation of abstracts in the field of banking; Professor M. H. Robinson has resigned as abstractor of articles on corporations and trusts; and Professor E. R. Dewsnup as abstractor of articles on railways. Professor Heilman of the University of Illinois has kindly consented to undertake the preparation of abstracts in the field of public utilities.

The cost of the Review during the past year was \$7531.35, divided as follows:

Printing	0	0		9						0	0	0	0	.\$3023.62
Salary of editor .	0		0	0	0	0	0		0	0	0	0	0	. 1500.00
Contributors				0		0	0	0		0		0	0	. 1312.25
Clerical assistance		*	*	*	ji.	*		*	×	*		*		. 1236.29
Supplies			*	×		*			*					. 459.18

\$7531.34

This is \$126.79 greater than in the preceding year. Addi-

tional clerical assistance and the purchase of a typewriter are responsible for the increase.

Appended are comparative tables showing the distribution of contents and costs by the principal groups of items for each volume of the Review.

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1. Pages given to each section	1.	Pages	given	to	each	section
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	1911	1912	1913	1914
Leading articles	342	291	347	327
Reviews of books	304	298	268	249
News books listed	62	101	104	186
Documents, reports, legislation	89	110	141	113
Periodical abstracts	133	186	167	166
Notes	40	41	43	35
Doctoral dissertations	8	11	8	10
	978	1038	1078	1030

2. Number of items in each section

	1911	1912	1913	1914
Leading articles	21	17	20	20
	207	213	198	145
New books listed	785	1452	1416	1575
Signed notes in documents, re-				
ports and legislation	27	32	42	33
Periodical abstracts	1074	1727	1877	2021

3. Percentage given to each section

	1911	1912	1913	1914
Leading articles	34.9	28.0	32.2	31.8
Reviews of books	31.0	28.7	24.9	23.6
New books listed	6.2	9.6	9.6	13.2
Documents, reports, legislation	9.1	10.6	13.0	11.0
Periodical abstracts		17.9	15.5	16.1
Notes	4.0	4.0	4.0	3.4
Doctoral dissertations	.8	1.0	.7	.9

4. Exp	enditures		
1911	1912	1913	1914
Printing \$2495.18	\$3220.83	\$3328.01	\$3023.62
Salary of editor 1500.00	1500.00	1500.00	1500.00
Contributors 1320.25	1114.50	1268.35	1312.25
Clerical assistance 865.50	794.89	983.09	1236.29
Supplies 413.51	292.68	325.10	459.18
Traveling expenses of			
Editors 136.15			
\$6730.59	\$6922.90	\$7404.55	\$7531.34

Davis R. Dewey,

Managing Editor.

PRELIMINARY REPORT OF THE JOINT COMMITTEE ON ACADEMIC FREEDOM AND ACADEMIC TENURE

At the December, 1913, meeting of the American Economic Association, the American Sociological Society, and the American Political Science Association, this identical resolution was adopted:

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RESOLVED, That a committee of three be constituted to examine and report on the present situation in American educational institutions as to liberty of thought, freedom of speech, and security of tenure for teachers of Economics (Sociology, or Political Science).

That the committee be authorized to coöperate with any similar committee that may be constituted by other societies in the field of political and social science.

The three committees appointed in virtue of these resolutions subsequently decided to merge into a Joint Committee on Academic Freedom, of which Professor Seligman was elected chairman and Professor Lichtenberger secretary. The report herewith presented to each of the three associations is the report of this Joint Committee.

Your committee has held several meetings at which the general problems were discussed and has investigated several cases of alleged infringements of academic freedom. As a result it became apparent that the subject bristled with complexities of such a character that your committee feels itself in a position at present to make only a preliminary report.

It is important at the outset to remove misapprehensions as to the function of the committee. This function, as we understand it, is not that of a merely protective organization or professional trade union. It was for this very reason that it was made to include publicists and lawyers as well as professors. Its object, as understood by us, is to point out the public rather than the private importance of the problems and to emphasize the duties as well as the rights of all parties concerned.

The public relations of academic freedom, apart from the teachers involved, are fivefold; to science, to the student body, to the trustees, to the presidents, and to the community at large.

1. The modern university is the chief home of science. The aim of science is to discover new truth, but every new truth means the disappearance of old error and frequently involves a shock to existing opinion. The shock may be unwelcome but

unless there be the fullest freedom in scientific investigation and in the proclaiming of its results, there can be no progress.

2. The student body in our institutions of learning possesses the right of having presented to it the latest results of scientific research, whether or not those results have as yet been firmly

incorporated into the body of accepted truth.

3. The trustees of such institutions are interested in the problem of academic freedom because with the possible conflict in their minds between the claims of the general principle and the immediate welfare of the institutions committed to their charge a clearer understanding of mutual rights and duties should be helpful.

4. The presidents of our institutions of learning are sometimes in a difficult position because of their double capacity, representing both faculty and trustees. When there is an honest difference of opinion as to the extent and limits of academic freedom it is just as likely that the president may need support against the trustees as that he may act as their mouthpiece in opposition

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5. The community at large has a right to expect of its institutions of learning, whether maintained by public contributions or supported by private munificence, the best results of scientific achievement, unhampered by party bias or personal prejudice.

The difficulties of the problem referred to above involve current misunderstandings both as to the nature and limits of academic freedom and as to the fundamental theory of academic tenure

of position.

Let us examine first the question of academic freedom or liberty of thought. This problem, it may be stated at the outset, does not exist in colleges under obligations to teach denominationalism, nor in institutions designed to spread specific doctrines of any kind. It is important, however, that such institutions should not be allowed to sail under false colors. Freedom of thought and the inculcation of a particular brand of thought are hopelessly irreconcilable.

If by liberty of thought is meant freedom of research, the necessity of its existence without any limits is so obvious as to be entirely indisputable. So slight, however, is the danger of its infringements in the American institutions of today that this aspect of academic freedom calls for no further discussion.

The situation is different when we come to the other phase

of academic freedom, namely, freedom of speech or liberty of expressing in spoken or written word the results of scientific research. In past centuries the chief menace to freedom of this kind was theological; in recent times, with the advent of democracy in politics and industry, the danger zone has been shifted to economics, political and social science.

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The motive for infringing such freedom may be either private or public. In our privately endowed institutions it rarely if ever happens that an attempt is made to limit academic freedom because of threatened injury directly to the individual interests of the authorities. More common is the public or social motive, based on the desire of the authorities to prevent the spread of ideas or influences which are in their opinion harmful to true morals, sound politics, or the real social interests. In between these private and these social motives lies a large field where the motive asserted and believed by the authorities may be social in character and yet where in reality their own interests or that of their friends are implicated. In the political, economic, and social field almost every question, no matter how large and general it at first appears, is more or less affected with private or quasiprivate interests; and, as the governing body is naturally made up of men who through their standing and ability are personally interested in the private enterprises, the points of possible conflict are numberless. When to this is added the consideration that most of the benefactors as well as the parents who send their children to privately endowed institutions themselves belong to the more conservative class, it is apparent that a similar pressure may, however unconsciously, sometimes be brought to bear upon the academic authorities.

On the other hand, in our state institutions the danger is the reverse. Where the university is dependent for funds upon legislative favor, it has not infrequently happened that the conduct of the institution has been affected by political considerations; and where there is a definite governmental policy or a strong public feeling on economic, social, or political questions, the menace to academic freedom may proceed from the expression of views that in the particular political situation are deemed ultra-conservative rather than ultra-radical.

The real point of danger, hence, is not so much the particular shade of opinion as that it differs from the one entertained by the authorities. The problem resolves itself into one of departure from accepted standards; whether the departure is in the one direction or the other is immaterial.

In considering this problem six classes of difficulties present themselves. The first query is as to whether the identical rule ought to be applied to our colleges as to our universities. In a true university there may be a dozen instructors teaching various aspects of the same subject and ranging in their views over the entire gamut of opinion. The student has his choice and balances the idiosyncrasies of one scholar against those of another. In a small college, where there may be only a single instructor to cover the entire field, not only are the students apt to be much more easily influenced in their general point of view, but the reputation of the college itself is more likely to be affected by the opinions of any member of the faculty. There is, indeed, everywhere a danger line; but is the line not somewhat further removed in the one case than in the other?

Secondly, irrespective of the distinction between a college and a university, ought not different rules to be applied to graduate and undergraduate instruction, to teachers of immature, as compared with those of more advanced, students? Is it not true that the more youthful the class of students, the greater is the teacher's obligation to present scientific truth with discretion and with some regard to their character building? Should the rule of academic freedom in all its rigor not be limited to the instructor of the more mature and advanced students, whose character has largely been formed and who are in the proper attitude to receive truth for truth's sake? Is not much of the unclearness in the present situation due to the failure to distinguish between classes of instructors?

Thirdly, ought the same rule to apply to the specialists and to the non-specialists? Within the university this problem cannot arise, for the views of a biologist on the tariff or of a physicist on socialism would be of no interest to any of his students. But if the biologist should give a public address on some economic question or if the physicist should take part in a political campaign, ought interference with this to be considered as an infringement of academic freedom?

Fourthly, as to the instructor speaking on his own chosen topic, ought a distinction to be made between the opinions expressed within the class room or lecture hall and those expressed on the outside? The opinions of a scholar in a lecture room

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indeed ought to be considered privileged. Discussions in the class room are not supposed to be formal utterances for the public at large. They are often designed to provoke opposition or to arouse debate. There should be no room for sensational newspaper quotations from such remarks. In foreign countries it is a misdemeanor to publish or otherwise to quote a university lecturer without his consent. Ought not such a practice to be observed in this country?

The specialist may, however, speak on the subject outside of the class room, either with the students informally or in a scientific address or in a popular talk. He may, in the exercise of the ordinary duties of citizenship, take part in politics, and may even run for office or hold office.

To what extent and under what conditions ought this to be permitted? Does the possession of special opportunities of study and presumably of special knowledge on political, social, or economic questions constitute a reason why one should use his information to influence public opinion? Or does it make it desirable, on the contrary, that he should not voice his opinions? It may be claimed that an academic teacher who publicly takes a definite stand on a political or economic issue is thereby impairing his reputation for impartiality. Does this, however. not exaggerate the distinction between intramural and extramural utterances? If within the class room the scholar discusses a topic in a scientific way, presenting both sides of the question and then drawing his own conclusions, does the mere fact of his expressing these conclusions in public necessarily impair his reputation as a scientist? And has the community not the right to profit by the opinion of the expert, if he really is such?

Fifthly, to what extent should a scholar be expected to make concessions to public sentiment? That there are limits is obvious. A teacher in a southern university might have private views as to the general philosophy of social equality between the white and the colored races; but would he not be injudicious, to say the least, publicly to oppose the overwhelming general sentiment? A sociologist might come to the conclusion that trial marriages were desirable. But could an objection to the public expression of such views properly be called an infringement of academic freedom? Even though experience shows that there is no man or set of men so capable as to be able to decide what academic teachings shall be suppressed as contrary to good morals, can

we claim for the academic teacher a consideration which will entirely relieve him from the consequences applicable to all others when they advance opinions for which the popular mind is not prepared and which are at variance with the recognized fundamental standards?

Sixthly, is not the crux of the situation often to be found less in the statement of any particular opinion than in the method of its expression? If the academic teacher takes part in any discussion where public opinion is sharply divided or hostile, is it not incumbent on him sedulously to refrain from extreme or intemperate statement? Can freedom of speech be permitted to cover self-exploitation or mere desire for notoriety? And if a university teacher differs so widely in method of expression from his fellow scientists as to forfeit their confidence in his scholarship and poise of judgment, can he continue to invoke in his behalf the plea of academic freedom?

It is clear, therefore, that there are no rights without duties and that the duties of teacher and of authorities are reciprocal. The duty of the academic authorities is to refrain from confounding their own predilections with what they imagine to be public policy; the duty of the professor is to remember that he is acting not merely as an individual but as the representative of science.

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Various kinds of pressure upon a teacher may be exerted to limit his academic freedom, but it is only the most severe and therefore the most unusual that ever come to public notice, namely, dismissal. Milder disciplinary measures are: warning, transfer to other work, denial of promotion or of increase of salary. The difficulty of ascertaining the existence of such measures is almost insurmountable, inasmuch as other reasons may almost always be assigned by the authorities, such as lack of ability, tactlessness, general incompatibility, etc. If, however, we confine our attention to dismissal we are brought face to face with the most fundamental point in the problem. What is or what should be the nature of the employment and tenure of a college or university teacher?

On one hand the view is more or less frankly expressed or implied by the authorities that academic teaching is a purely private employment, resting on a contract between the employing authority and the teacher. The same authority may dismiss the employees at any time, for any cause, or for no assigned cause whatever; and the contract itself is terminable at the pleas-

ure of the trustees. On the other hand, this is denounced as the "hired man" concept of the subject, destructive to the scientific spirit of the work, and to the dignity of the profession necessary to attract able scholars and teachers. Academic teaching, it is said, must be regarded as a quasi-public official employment in which the original appointment is made by the authorities who are bound to act not as private employers or from private motives but as public trustees. It is held that only in this way can there be made possible the development of the standards of disinterested scholarship or can there be created a body of scholars and teachers to perform for the community a necessary function which cannot otherwise be achieved. It is a distinctly different service from that of the judge, the lawyer, the journalist, or the ordinary corporation official. It implies a security of tenure, not as a personal privilege but as an expedient, far-sighted public policy, which, so far as it is consistently followed, attracts high ability into a social service with small pecuniary reward.

Evidently the practice in most cases exemplifies neither ideal of employment, although it ranges from the one extreme to the other. In some of the smaller colleges the private-employment concept is nearly realized. In some of the larger universities the public-employment concept is closely approached. Almost everywhere there is great uncertainty of practice, reflecting great vagueness of conviction on the subject.

It is clear that the farther we get away from the hired-man theory the more definite will be the replies to the queries which we desire here only to formulate.

First, ought an academic teacher ever to be dismissed at all, or ought he to be virtually irremovable, as in the continental universities?

Secondly, ought a distinction to be drawn in this respect between a college and a university teacher, between an officer of high grade and one of low grade; between an officer of long standing and one of recent tenure?

Third, if such a distinction is permissible, ought an academic teacher of long standing ever to be dismissed without the payment of a pension?

Fourth, ought an academic teacher of any grade ever to be summarily dismissed by the authorities without hearing or trial?

Fifth, if there is to be a hearing or trial, ought this to be before the university authorities or before some tribunal representing the general interests of scholarship? Sixth, ought an academic teacher ever to be dismissed without public declaration of the reasons therefor, and if not, ought the reasons alleged ever to be a mere pretext, even though the suppression of the real reason is in the supposed interest of the individual himself?

From the foregoing it is clear that there may be differences of opinion as to the ideals to be realized, as to the practicable means of attaining the ideal, and as to the limitations to be observed. Our preliminary investigation of actual cases has brought us to the tentative conclusion that mistakes have been made on both sides and that the chief difficulty arises from a failure of academic teachers as well as of academic authorities to observe the duties no less than the rights of their position. In order, therefore, to enable us to devote more study to the investigation, both in its general aspects and in the particular cases of alleged infringement of academic freedom, we recommend that this committee be continued with a view of making a final report at the next annual meeting.

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